

CHAPTER 38

FEDERAL-PROVINCIAL IMPLICATIONS

The purpose of this chapter is to consider some of the implications for federal-provincial fiscal relations of the tax structure recommendations made in Volumes 3, 4 and 5. No attempt is made to repeat the conclusions and recommendations made in Volume 2 that have relevance for federal-provincial relations 1/.

The principal technical problem in federal-provincial tax relations is the harmonization of federal and provincial taxes of various kinds and of arrangements for their collection. This problem is discussed in this chapter. The questions of whether the federal government can or should impose taxes on commercial and industrial corporations controlled by the provinces, and whether the provinces can or should tax similar corporations owned by the federal government, were discussed in Chapter 20.

In trying to devise a federal tax system we are forced to consider a very large part of the tax structures of the provinces because much of each province's tax structure is the same as or similar to the federal tax structure. Any change in the federal tax structure, therefore, has significant implications for provincial taxation. For example, the federal personal income tax base and the provincial income tax bases are either identical or very similar. To recommend a change in the federal income tax base is tantamount, therefore, to recommending a change in provincial income tax bases. In our view it would be a tremendous loss to all Canadians if this common income tax base was not maintained. To recommend that the federal government move from a manufacturer's sales tax to a retail sales tax obviously is of great significance to the provinces because most of them now impose a form of retail sales tax. We are persuaded that great advantages would be gained if the provinces and the federal government were to adopt a common retail sales tax base.

Even greater uniformity of tax bases than now prevails among governments would be highly desirable, as would uniformity of rates. Indeed, our proposed federal tax system would fall far short of the objectives we have sought if the provinces and the federal government were unable to harmonize rates of tax on a common income tax base. In particular, our recommendations with respect to the integration of corporation and personal income taxes would lose some of their effectiveness unless co-ordinated rates were applied at both levels of government. Likewise, some of the advantages of including gifts in the personal income tax base would be lost if the provinces continued to impose death taxes.

Canada should avoid, if possible, the duplication of administrative and compliance costs that may result when the federal and provincial governments levy essentially the same kind of tax on the same taxpayers. It is most desirable that agreements be reached between the federal and provincial governments for the collection and administration of each type of tax by one or the other in a way that protects the interests of both.

We are under no illusions that it would be an easy matter to achieve common tax bases, harmonized tax rates and joint tax collection arrangements. The drive for greater provincial autonomy is extraordinarily strong. The desire to have complete fiscal independence for each province as a matter of right, and as a tool for achieving provincial objectives, would make it difficult to persuade some of the provinces to work more closely with the federal government and other provincial governments in the tax field. The potential gains from success are so great, and the potential losses from failure so heavy, that we have no hesitation in urging the federal government to strive to attain these goals despite the serious obstacles that may be encountered.

In arriving at the conclusions and recommendations given in this chapter, we have been guided by the following considerations:

1. The federal government must continue to have the major voice in the determination of personal and corporation income tax bases. While consultation with the provinces is essential, particularly now that the provinces obtain such a large share of personal income tax revenues, the federal government must be more than a benevolent chairman of a committee of the provinces. This is also true, but to a lesser extent, with respect to sales taxes.
2. The federal government must ensure that the tax system does not become either a weapon with which the strong provinces tyrannize the weak provinces or a means of erecting barriers between provinces.
3. Although it has no constitutional obligation to do so, the federal government has taken primary responsibility in the past for the redistribution of personal income. It has determined the progressiveness of the personal rate structure, and federal transfer payments have been largely responsible for offsetting regressive property taxes. At least until the provinces take a greater interest in the redistributive effects of the tax system, the federal government should continue to assume this responsibility.
4. As we recommended in Chapter 3, the federal government should resist further increases in personal income tax abatements in order to keep the personal income tax as an effective tool of discretionary fiscal policy. Only when a joint stabilization strategy is developed, and the provinces can play an effective stabilization role in co-operation with the federal government, should this restriction be relaxed.
5. The relative importance of sales and property taxes in the overall Canadian tax mix should gradually be reduced. This would not hurt Canada's international competitive position or the rate of economic growth, but would improve the equity of the Canadian tax system. If, over time, the proposed tax system did not yield adequate government

revenues, personal income taxes should be raised. If tax cuts were required to offset the revenue drag, sales and property taxes should be reduced. Because of the greater long-run elasticity of income taxes, persistent adherence to the foregoing rules would, in our opinion, substantially improve the tax mix.

PERSONAL AND CORPORATION INCOME TAXES

Under the existing Federal-Provincial Fiscal Arrangements Act 2/ the federal government has agreed to collect personal income tax on behalf of all the provinces except Quebec, and corporation income taxes on behalf of all the provinces except Quebec and Ontario.

The participating provinces levy personal and corporation income taxes on a base that is identical to that defined by the federal Act so as to ensure uniformity in the administration of the tax laws. Under the 1966 arrangements, all provinces except Manitoba, Saskatchewan and Quebec levy personal tax at a rate of 24 per cent of the federal tax, this being the amount allowed as an abatement from the tax imposed by the federal government. In most provinces, therefore, a taxpayer deducts from his federal tax exactly the amount of the provincial tax which he is called upon to pay and there is no additional provincial tax beyond the federal rates. In Manitoba and Saskatchewan, the personal rates are 29 per cent of the federal tax, so that residents in those provinces pay additional provincial taxes equal to 5 per cent of the federal tax.

Quebec residents receive an abatement of 47 per cent instead of 24 per cent of the federal tax. The Quebec rates, when applied to the Quebec personal income base, result in a tax that is approximately equal to the federal abatement. Therefore, Quebec residents effectively pay no additional provincial tax. The higher abatement available to Quebec residents, which is balanced by the higher rates of provincial tax, results from that province taking advantage of the so-called "opting-out" formula. In exchange

for the higher abatement, Quebec undertakes to administer and finance the federal share of certain existing welfare programmes, including youth allowances to students of 16 and 17 years of age, hospital insurance, special welfare grants, technical training grants and health grants.

The federal abatement of personal income tax applies to "income earned in the taxation year" in a province and rules for determining such income are set forth in the Regulations. The basic rule is that an individual's income is deemed to have been earned in the province in which he resided on the last day of the year. The only exception is where the taxpayer has business income arising from a "permanent establishment" located outside his province of residence, in which case the income attributable to that permanent establishment is deemed to be income earned in the place where the permanent establishment is located. The rules for allocating income among several permanent establishments are virtually the same as those for corporations, to which reference is made below 3/. There are special rules for determining income earned in a province in the case of non-residents of Canada and of persons who reside in Canada for only part of the year.

On the corporate side, tax room is provided to the provinces by means of a tax credit equal to 9 per cent of corporate taxable income earned in a province rather than as a percentage of the federal tax. The credit is 10 per cent in Quebec. The additional percentage point available to Quebec corporations is in lieu of federal grants to universities in that province. The corporation tax rates currently in effect are shown in Table 38-1.

The federal credits for provincial corporation income taxes, and the provincial taxes themselves, are based on the taxable income of each corporation earned in a particular province. A corporation can have income earned in a province only if it has a permanent establishment therein; the income of corporations with permanent establishments in more than one province is allocated among those provinces according to a formula set out in the federal Regulations 4/. The formula takes into account the gross revenue attributable

TABLE 38-1

RATES OF TAX ON CORPORATE INCOME

	First \$35,000 of Income					Income in Excess of \$35,000				
	<u>Federal Tax on Corporate Income</u>	<u>Federal Old Age Security Tax</u>	<u>Federal Credit for Provincial Tax</u>	<u>Provincial Corporation Income Tax</u>	<u>Total Tax</u>	<u>Federal Tax on Corporate Income</u>	<u>Federal Old Age Security Tax</u>	<u>Federal Credit for Provincial Income Tax</u>	<u>Provincial Corporation Income Tax</u>	<u>Total Tax</u>
Quebec	18	3	-10 a/	12	23	47	3	-10 a/	12	52
Ontario	18	3	- 9	11	23	47	3	- 9	11	52
Manitoba and Saskatchewan	18	3	- 9	10	22	47	3	- 9	10	51
Others	18	3	- 9	9	21	47	3	- 9	9	50

Note:

a/ The greater tax credit for Quebec is granted in lieu of federal university grants.

to each permanent establishment and the wages and salaries paid to employees of each permanent establishment. Special provisions are made for certain special types of corporations, such as financial and transportation corporations.

The use of a formula to allocate business income among the provinces has enormous advantages. All business income is subject to provincial taxation but no business income is taxed by two or more provinces. Consequently, interprovincial "double taxation" is avoided. Just how complicated interprovincial taxation could become, if business income was not allocated by formula, is well illustrated by the problems of international taxation which we discussed in Chapter 26.

Another important factor in the formulation of the present system was the stipulation by the federal government that it would collect income taxes for the provinces only if the provinces adopted tax bases identical with that of the federal government. Without this stipulation, the degree of uniformity in income taxes that we now enjoy probably would not have been achieved. The substantial differences among state income taxes in the United States provide a forceful demonstration of what can happen in a federal system.

Common Income Tax Base

We believe that it is extremely important that the provinces and the federal government continue to maintain a common, or virtually common, personal income tax base. But we also believe that the common base should be more comprehensive than the present base and should embody the reforms we have recommended elsewhere in this Report. Broadening the base and eliminating the inequities, anomalies and loopholes in the present structure should be as attractive to the provinces as to the federal government. A base thus improved would allow all governments to raise the same revenues with lower rates or more revenues with the same rates. The merits of this result do not need to be extolled.

Under the existing arrangements the residents of some of the provinces are paying a large part of their income taxes to their provincial governments. Consequently, the provinces cannot be expected to accept meekly whatever tax changes the federal government decides unilaterally to make in the base. It is obvious that federal-provincial agreement on substantive tax base changes is an inescapable necessity if a uniform base is to be maintained. And without a virtually uniform base there would be a real danger that the tax system would degenerate into an agglomeration of eleven un-coördinated and competitive tax systems. This would be disastrous.

This is not to say that joint decision making would be easy or without dangers. Governments would be called upon to exercise a high degree of maturity and responsibility and to put aside sectional interests in the national interest. If they did not rise to the occasion, we would either lose the common income tax base that is so beneficial to all taxpayers and all governments, or the process of change would become so entangled in controversy that changes in a common tax base to meet changing circumstances would become impossible. Even if all governments agreed on a common tax base, joint decision making without a profound realization by all governments of their responsibilities could easily result in a tax structure that would be both inequitable and difficult to reform because of special provisions for sectional interests.

Administration of Income Taxes

There can be no doubt that life would be simpler for taxpayers, and administrative costs would be reduced, if each type of tax levied by both levels of government was collected on a common base by one of them on behalf of both. The possibility of working out such collection arrangements that would include all provincial governments should be carefully and fully explored. It seems to us that under joint collection arrangements both levels of government should make collection policy decisions jointly and that the level of government not acting as the collection agency should have

the right to all the information necessary to protect its interest. This would include the right of the non-collecting government to audit the work of the other.

If our recommendations are accepted there will be three tax fields in which the federal and provincial governments will have a mutual interest: personal and corporation income taxes and retail sales taxes. We should like to see the federal government act as the collection agency for all personal and corporation income taxes ^{5/} and the provincial governments act as the collection agency for all retail sales taxes. In this event the federal government would act as the collection agency for Quebec with respect to personal and corporation income taxes and for Ontario with respect to corporation income taxes. Provincial death taxes would be abolished. The provinces now collecting sales taxes would also collect sales taxes for the federal government. The provinces not now collecting sales taxes would either begin to collect sales taxes for the federal government (and for themselves if they wished to do so) or the federal government would establish collection machinery in those provinces.

Integration of Personal and Corporation Income Taxes

Under our proposal for the full integration of the taxes on personal and corporate income, resident individuals to whom corporate distributions or allocations were made would be given full credit for the tax paid at the corporate level. For resident shareholders the Canadian corporation tax would be, in effect, simply a withholding tax.

Although it would involve a radical change from the present system, and might be unacceptable to the provinces on doctrinal grounds, there can be no doubt that from every other point of view it would be highly desirable that the provinces withdraw from the corporation tax field altogether. Provincial revenues could be maintained in several ways. For example, part of the

corporation tax revenues raised by the federal government could be allocated among the provinces by a mutually acceptable formula. Another possibility would be for the federal government to reduce its retail sales tax rate (assuming that it moved to the retail sales tax from the manufacturer's sales tax) in exchange for the withdrawal of the provinces from the corporation tax field. Because the long-run elasticities of the corporation income tax and the retail sales tax are about the same, the future growth of provincial revenues would not be reduced by such mutual concessions.

If the corporation income tax was solely a federal tax, integration of the personal and corporation income taxes would be a straightforward matter. The federal government would collect the corporation tax and give all resident shareholders full credit for that tax against their federal personal income tax liabilities. If this credit resulted in a refund, the refund would be applied in payment of the provincial personal income tax to the extent thereof and would be remitted to the province along with personal income tax revenue collected on behalf of the province.

We urge the federal government to attempt to negotiate with the provinces for exclusive use of the corporation income tax. The reduced costs of taxpayer compliance, the greater simplicity of the system and the elimination of duplicate tax administrations in Quebec and Ontario would be a long step forward. While the imposition of a corporation income tax can be justified on various grounds, as we point out in Chapter 19, it serves no useful social purposes, so that the provinces would not be relinquishing an effective instrument for social reform by ceasing to levy such a tax. The provinces could achieve all of their economic purposes by granting subsidies to businesses rather than corporation tax concessions. If the sole purpose of a provincial corporation income tax is to raise revenue, and if the same revenue can be obtained in other ways, there seems to be no essential reason for the provinces to continue that tax.

Should it prove impossible to negotiate a withdrawal of the provinces from the corporation income tax field, the next best alternative would be for the federal government to grant full credit to resident shareholders under the integration proposal for both the federal tax and a standard rate of provincial corporation income tax. The competition among the provinces to induce businesses to locate within their boundaries would be likely to restrict the variations of provincial corporation income tax rates from the standard rate within a fairly narrow compass. Under this alternative, the use of the present formula for the allocation of business income among the provinces should be maintained.

An unsatisfactory state of affairs would result if the provinces continued to levy corporation income taxes at different rates, with the federal government granting shareholders a credit only for its own corporation income tax it levied. This would lead to the situation where a shareholder resident in province A would be at a tax disadvantage if he bought a share of a corporation resident in province B. It would not be long before shareholders would demand credit for the taxes imposed by "foreign" provinces, and there would be an endless debate about the rights and duties of source and destination provinces. The system would be an administrative nightmare.

Harmonization of Rates of Personal and Corporation Income Taxes

Under our integration proposal, it is crucial that the total tax rate on corporate income be approximately the same as top marginal combined rate of federal and provincial personal income taxes. If the combined personal rate was higher than the total corporate rate by more than, say, 5 per cent, high income taxpayers would find it advantageous to postpone part of their personal income taxes by retaining earnings in corporations. Given the rules existing at present in a number of countries in respect of foreign tax

credits, it is also important that the present combined rate of tax on corporate income, ranging from 50 per cent to 52 per cent, not be changed materially. For most "direct" investment in Canada by non-residents, a rate reduction would have the effect of merely transferring revenue from the Canadian treasury to the treasuries of other countries. A rate increase would be borne generally by the non-resident investors themselves, and so would discourage investment in Canada. There are thus two important restrictions on the top marginal combined rate of federal and provincial personal income taxes.

We have presented a personal income tax rate schedule that, if imposed on our suggested base, would raise about the same revenues, both federal (including old age security tax) and provincial, as the present system. It will be recalled that this proposed rate structure has a top personal rate of 50 per cent. If this rate schedule was put into effect, it would forestall many complaints about the disincentive effects of the progressive tax system and would permit a wholesale reform of the tax base. The Canadian corporate source income of non-residents could be taxed by Canada at these rates without discouraging foreign investment. We shall assume for the purposes of this discussion that, if the recommended base were taxed at these suggested rates, there would be "sufficient" revenue from income taxes for both the federal and provincial governments.

How the two levels of government share these personal income tax revenues is not our concern. But we are vitally concerned that the level of the federal and provincial personal income tax rates, and the relationships between them, should not open avenues for tax postponement by upper income individuals.

With all this in mind, we suggest that the federal government continue to act as the collection agency for all personal income taxes. Furthermore, we would favour an arrangement that embraced the following propositions:

1. As at present, there should be uniform personal income tax rate schedules 6 /.
2. The rate of corporation income tax should be equal to the top marginal rate of personal tax.
3. As at present, the federal government should allow an abatement for provincial personal income taxes. It would not be essential from a technical point of view that the abatement be the same for all provinces.
4. This abatement should be calculated on the "basic tax" (base times the rate structure) before any credits for other taxes were granted.
5. As at present, each province should set a rate of personal income tax as a percentage of the basic tax.
6. The only limitation on the provincial tax rates would be that the rate set by any province would not exceed the federal abatement to that province by more than about 5 percentage points. This limitation would keep the spread between the top marginal rate of tax, as given in the federal rate schedule, and the maximum combined rate of federal and provincial taxes, to within 5 percentage points. If the federal government then taxed corporate income at the top personal rate on the schedule, no taxpayer could postpone more than 5 per cent of his combined federal-provincial personal income tax. We believe that this would not create significant avoidance opportunities for upper income shareholders.

We are well aware of the disadvantages of linking the federal and provincial personal income tax rates in this fashion. We dislike the limitation that would be required on the extent to which provincial income tax rates could exceed the federal abatement. It is sometimes argued that separate federal and provincial rate schedules would avoid the charge that the federal government was imposing "double" taxation when a province increased its rate of tax so as to exceed the federal abatement. Similarly, separate schedules

might clarify for the taxpayer the levy by each government. Despite the calculations required on the present income tax form, many taxpayers apparently do not understand that federal and provincial income taxes are being collected simultaneously by the federal government in most provinces.

However, too much should not be made of the rigidities of our approach. The fact is that, in general, the provinces seem to be anxious to avoid substantial tax differentials, as evidenced by the fact that the difference between the federal abatement and the highest provincial tax is at present only five percentage points.

It would be most unfortunate if the simplicity of the common personal rate schedule were abandoned in an attempt to preclude the "double" taxation argument, for this argument is essentially meaningless. To describe the situation where a provincial income tax rate is in excess of the federal abatement as a form of "double" taxation implies that taxes are in some sense being compounded. This is not the case. Raising the provincial income tax rate above the federal abatement is equivalent to an across-the-board percentage increase in the marginal rates on the schedule. This simply increases personal income taxes; it does not compound them. What is in fact being claimed by those who advance this argument is that the federal government should automatically reduce its share of the personal income tax whenever a province wants more revenue—a completely unacceptable proposition.

Moreover, even if the federal and provincial governments each had their own personal income tax rate schedule, if both imposed taxes on the same base some would still try to persuade the ill-informed that this was a form of "double" taxation and, in some unspecified sense, reprehensible. As long as two governments occupy the same tax field, blame for high taxes will be laid by the one on the other.

Some individuals are probably unaware that the federal government is collecting both federal and provincial personal income taxes for all

provinces except Quebec. This ignorance is unlikely to be dispelled by the adoption of two separate rate schedules on a joint federal-provincial personal income tax return on a common form. Those who are unwilling to read the present tax forms are unlikely to understand the method unless there are two entirely separate returns which are filed at different places at different times. A programme of public education would appear to be the answer, not a duplication of effort and greater complexity.

There is, however, one argument for separate provincial personal rate schedules that cannot be dismissed. A province may seek a rate schedule with more or less progressiveness built into it than the rate schedule adopted by the federal government if the collective social attitudes of the residents of that province differ from those prevalent in other parts of Canada. There may then be no alternative to a separate provincial personal income tax rate schedule.

Separate provincial rate schedules, while more cumbersome and complex, would not create major technical problems under the system we propose if one condition were met. To prevent tax avoidance or deferment by upper income shareholders, the top marginal rate of tax levied by a province when added to the top federal marginal rate, should not exceed 55 per cent—the total corporation tax rate plus 5 per cent. This is not a stringent limitation because, as stated earlier in the Report, a province that wished to adopt a more highly progressive tax system might supplement the personal income tax with a net worth tax on those resident individuals with substantial assets.

Abolition of Death Taxes

We propose that all gifts, whether inter vivos gifts or inheritances, should be taxed as income, except gifts between members of a family unit. Accordingly, if our recommendations were accepted by the federal government

and the same base was adopted by provincial governments, the death taxes now imposed by the federal government and the governments of Quebec, Ontario and British Columbia would be redundant. Acceptance of our recommendations in this area would mean an enormous simplification for the taxpayer and would eliminate the present duplication of administrative effort. We are convinced that there would be a great improvement in equity and a closing of the loopholes that now riddle the system.

If the provinces accepted an income tax base that included gifts and inheritances they would, of course, share in the revenue from this component of income in the same way as they share in the revenue from income generally. It is difficult to estimate what the provincial revenue from this particular source would be under the proposed system compared with what it is under the present system. We cannot determine precisely how much would be gained by closing existing loopholes and by eliminating the present exemptions. We can only assume what the allocation of inter-family gifts would be. However, based on the estimates shown in Chapter 35, we are satisfied that taxing gifts in the manner we recommend would raise more revenue than all of the present federal and provincial death taxes. The provinces, in effect, now get 75 per cent of the revenue from this source through abatement of the estate tax or in the form of grants from the federal government, or a combination of these methods. It should not be difficult for the federal government to devise a system that would guarantee the provinces no revenue loss if they discontinued their death taxes.

SALES TAXES

In Volume 5 we reviewed the advantages and disadvantages of sales taxes of all types. We concluded that a retail sales tax was vastly superior to a manufacturer's sales tax and recommended that the federal government replace the present manufacturer's tax with a tax at the retail level. With eight of the ten provinces already levying retail sales taxes, our recommendation obviously has implications for federal-provincial relations. At the beginning of this chapter we set forth what we believe to be important objectives with regard to taxes in fields of mutual concern to the federal

government and the provinces. These objectives—a common base, co-ordinated rates and collection arrangements—are relevant if our recommendation that the federal government move its sales tax to the retail level is accepted.

The Scope or Coverage of the Tax

The overall benefit to be derived from moving the federal sales tax base to the retail level would clearly be limited unless the federal sales tax system was co-ordinated with the existing provincial structures. In fact, a separate federal retail sales tax that was not co-ordinated with the existing provincial sales taxes would burden retailers with a multiplicity of rates, exemptions, calculations, remittances and the like. One of the important arguments supporting a federal shift to the retail level is the prospect of eliminating the present duplication of sales tax administrations at the federal and provincial levels. Essential to the attainment of this objective is the adoption by the federal government and the provinces of a common retail sales tax base.

We have outlined in broad terms in Chapter 29 our views on the scope or coverage of a sales tax. It is obvious that the introduction of a composite federal-provincial sales tax at the retail level injects an important additional consideration into the tax coverage that we have proposed, namely, the need to equate the federal and provincial retail sales tax bases. We realize that the determination of a common base will not be easy, particularly where substantial revenues are involved; we also recognize that the penalty for failing to reach agreement could be severe, for taxpayer and administrator alike.

We are satisfied, however, that with good will on both sides it will be possible for the federal and provincial governments to reach an agreement on a common base. To this end we hope that both levels of government will give careful consideration to our recommendations with respect to the scope of a retail sales tax. We are convinced that within the broad guidelines we

have established it will be possible to develop a common base that is equitable, administratively feasible and consistent with the desire for an adequate rate of economic growth.

"Direct" or "Indirect" Retail Sales Tax

The form of retail sales tax used by the provinces is conditioned by the provisions of the British North America Act. Whereas the federal government can levy virtually any form of tax, 7/ the provincial governments are limited to "Direct Taxation within the Province in order to the Raising of a Revenue for Provincial Purposes" 8/. Accordingly, although the provinces do not have the legislative competence to impose a sales tax on retailers, that is, an "indirect" tax in that it would be passed on to the customers, they may impose a sales tax on consumers and require retailers to act as collection agents 9/. By this means they are able to use the basic administrative mechanics of a tax which is "indirect" in terms of licensing and collecting tax from vendors and, at the same time, the tax is technically levied in a "direct" form, that is, it is demanded from the persons who it is intended should pay it, namely, the consumers or users.

The proposal for a composite federal-provincial retail sales tax prompts two questions:

1. What are the respective merits of the direct and indirect forms?
2. What are the constitutional limitations on the enactment and administration of each of the two forms of tax?

The indirect form of tax is not without technical problems. Goods purchased outside a province and brought into the province for consumption automatically fall within the scope of a direct sales tax; if an indirect tax were imposed on vendors it would be necessary to allocate the sales among provinces on the basis of place of shipment or place of destination of the goods or on some other basis. It would probably be advisable under an

indirect tax to require retailers to pay tax to the province to which the goods were destined. Another difficulty with the indirect form arises from the fact that some dealers sell many low-priced items. Should they absorb the amount of the tax or raise their prices?

On balance, we believe that the reduction in compliance costs for most dealers under an indirect retail sales tax outweighs these disadvantages. Under an indirect sales tax, the higher the rate of tax the less the problem for the dealer in items that retail for small amounts. At the combined rate of federal and provincial taxes that probably would prevail, the problem might not be considered significant. If it were judged important, it would be possible to allow retailers an option to remit tax on individual sales of specified minimum taxable amounts. Some retailers in some provinces are now collecting tax on a destination basis. The adoption of an indirect tax, with the requirement that goods being shipped out of the province be taxed at the rate applicable in the province of destination, to which the proceeds would be remitted, should not involve much more complexity.

Constitutional Considerations

It is a well-established rule of Canadian constitutional law that neither the federal government nor a provincial government can delegate to the other a legislative authority given exclusively to it under the British North America Act. Although the Act is silent on the subject of delegation of powers, it has been held by the Supreme Court of Canada in Attorney-General of Nova Scotia et al. v. Attorney-General of Canada 10/ that it is unconstitutional for Canada or a province to delegate any of its powers to the other.

The rule prohibiting delegation of power has no application where Parliament or a provincial legislature incorporates by reference into its valid legislation the valid enactments of the other.

Thus, it would be unconstitutional for Parliament to delegate to a province the power to enact an indirect retail sales tax. However, this

limitation would in no way affect the power of Parliament to grant to a provincial body the administrative function arising out of a statute which Parliament had passed. It would therefore be possible for Parliament to agree with a provincial legislature on the administration of an indirect sales tax.

In terms of possible structure, and disregarding constitutional considerations, any joint federal-provincial indirect retail sales tax might be enacted by:

1. The federal government, which would pay part of the revenue raised to the province.
2. The federal and provincial governments, each of which would retain the revenue raised under its own legislation 11/.
3. The provincial governments, which would pay part of the revenue to the federal government.

Regardless of which government enacted this legislation, it could be administered by:

- a) The federal government.
- b) The federal and provincial governments jointly or separately.
- c) The provincial governments.

There are therefore nine possible schemes, being combinations of 1, 2 or 3, depending on who enacts the legislation, and (a), (b) or (c), depending on who administers the legislation.

Having regard to the constitutional principles previously enunciated:

Schemes 1 - (a), (b) and (c) would be constitutionally valid.

Schemes 2 - (a), (b) and (c) would be valid only to the extent of the federal legislation.

Schemes 3 - (a), (b) and (c) would be constitutionally invalid.

To make the alternatives embodying 2 and 3 valid, it would be necessary to amend the British North America Act to allow provinces to levy an indirect sales tax. In addition, to make alternative 3 valid, it might be necessary to have an enabling section which would allow provinces to levy tax and give part of it to the federal government, since the words of the present section 92(2) "to the Raising of a Revenue for Provincial Purposes" could be construed to preclude provincial governments from levying a tax and giving the revenue to the federal government.

Although it would be technically possible for the federal government to levy an indirect type of retail sales tax and the provinces to continue with a direct form of retail sales tax with identical coverage, this would be undesirable. One of the advantages of moving the federal sales tax to the retail level is the possibility of reducing duplication of effort. It would be regrettable if retailers had to keep two sets of records for no reason other than to satisfy the requirements of constitutional law 12/. On the other hand, we dislike the idea of raising provincial revenues by means of an indirect retail sales tax levied under a federal statute in order to comply with the constitution.

If the sales tax is to be a joint tax with a common base, we think it would be misleading to the public, and probably unsatisfactory to both levels of government, to depend solely on federal legislation. We would therefore suggest that, if the provinces and the federal government can agree on a common retail sales tax base, the British North America Act should be amended to permit the provinces to levy indirect retail sales taxes on this agreed base. The risks involved in extending provincial taxing powers in this way are, we believe, minuscule. Much greater dangers of tax barriers and inter-provincial tax competition are associated with the corporation income tax, which the provinces are now competent to impose, than would arise in connection with provincial indirect retail sales taxes.

Interprovincial Transactions

In principle, under the provincial retail sales taxes, taxable goods sold in one province and delivered or taken by customers to another are subject to the sales tax of the importing province. They are exempted from the tax levied by the exporting province only when physical delivery to the customer is made in the importing province. In practice, because there is no machinery for dealing with interprovincial movement of goods, provincial sales taxes are not paid in respect of some transactions of this nature. On the other hand, because the exemption afforded by a province on goods exported to another province is a limited one, certain other transactions are ultimately subjected to sales taxes in two provinces.

The loss of revenue involved in the first situation is minimized by a number of factors. For one thing, a large proportion of imports is delivered to business firms, for the majority of which it is routine both to show the tax liability in their accounts and to remit the tax when due. For another, all motor vehicles imported into a given province must, within a limited period, be registered in that province. In addition, the large mail order houses bill their customers for the appropriate provincial sales tax and, when it is collected, remit it to the province in question. Finally, some firms having various provincial offices are registered with the respective provinces and remit the appropriate taxes. In 1963, Quebec enacted a provision requiring all firms soliciting business in that province to register with the provincial taxing authority. If this legislation is held by the courts to be constitutionally valid, it may become general for all provinces.

On the other hand, certain commodities, notably motor vehicles which require registration in the province of residence of the owner, and goods imported by business firms, may attract the sales taxes of two (and, in rare cases, more) provinces when purchased in one and exported to another. The amounts involved are, for practical purposes, indeterminate, but as Professor Due puts it, "The amount of potential double taxation...is substantial" 13/.

Under a system of indirect retail sales taxes imposed by the provinces, goods would be taxed in the exporting province and would not be subject to tax in the importing province, in the absence of provisions to the contrary. Although substantial differences in provincial rates of tax would lead residents of provinces with high rates to import goods from provinces with low rates, on most interprovincial shipments the advantages to be derived from differences in rates would not be as great as the advantages that can now be had by residents of one province buying goods in another province free of tax and evading the tax payable to the province of residence when the goods are imported. Among most of the provinces the differences in sales tax rates would be much smaller than the difference between a zero rate and the rate of tax imposed in the province of residence. Problems would continue to exist, however, if the two provinces that do not impose retail sales tax continued not to do so. In addition, provinces that were large exporters of goods to consumers would have increased revenues relative to provinces that relied more heavily on imported goods.

While there is no simple solution to this problem, we would suggest that each retailer in each province be required to pay tax to the province of destination on sales to customers in other provinces. If Manitoba and Alberta refrained from imposing provincial sales taxes, the federal government might, by appropriate legislation, attempt to oblige retailers in these provinces to collect tax for other provinces on goods destined for those other provinces.

Administration of a Federal-Provincial Retail Sales Tax

Separate provincial retail sales tax administrations are to be found in all provinces except Manitoba and Alberta. They have all operated long enough to warrant the belief that they are technically adequate and have some degree of public acceptance. Any federal retail sales tax machinery would require a complete overhaul of the existing federal system which applies to an entirely different distributive level and is concerned with economic situations of a

different kind. These circumstances suggest that provincial administration would be preferable to federal administration. We recommend that this objective be sought by the federal government.

We reached this conclusion not unmindful of the problems that would be involved in trying to weld the various provincial administrations into a collection machine that was consistent from province to province. The present provincial administrations vary so widely among themselves with respect to such things as organizational structure, staff qualifications, enforcement practices and the frequency and nature of audits of licensed vendors, that it would be difficult to form a homogeneous nation-wide system. In order to achieve a structure that was mutually acceptable to the provinces and the federal government, a great deal of reconstruction would be necessary.

If, as we would prefer, the federal-provincial sales tax was administered by the provinces, it would be necessary to establish procedures whereby the federal government could be satisfied that federal revenues were being fully collected by the provinces. Federal audits should be of assistance to the provincial administrators because, with uniform standards across the country, they would enable each province to assess its performance in an objective manner.

Rates of Tax

As we envisage the ultimate system, the federal and provincial governments would agree on a common retail sales tax base. The British North America Act would be amended to allow the provinces to impose an indirect type of retail tax. The provinces would adopt the new base, imposing whatever rates they wished to apply. After the system had functioned for a time and the major administrative problems with the new base had been worked out by the provinces and the federal government, the federal government would terminate its manufacturer's sales tax and impose a tax on the common base. It seems probable that, at least to begin with, the federal rate would be

the same in all provinces. In Manitoba and Alberta the tax would be administered by the federal government if these provincial governments did not impose a retail sales tax before the inception of the federal retail sales tax.

We have estimated elsewhere in our Report that the federal government could raise approximately the same revenues from a sales tax imposed at the retail level at a rate of 7 per cent to 8 per cent, given the base we recommend, as it now raises under the present manufacturer's tax with a rate of 11 per cent. If the federal government wished to make more sales tax room available for the provinces, to compensate the provinces for exclusive federal occupancy of the corporation tax field for example, after moving to the retail level the federal government could reduce the federal rate of sales tax so that the provinces could increase their rates without increasing the overall rate. Thereafter, the federal government could make more tax room available to the provinces simply by reducing its rate of retail sales tax 14/. The provinces would be free to raise their rates by more or less than the amounts by which the federal government reduced its rates and could change their rates at any time.

We feel that the attitude of the provinces toward our proposal would depend to a very large extent on:

1. How much additional revenue they required and when.
2. How difficult they think it would be for them to raise their rates when the combined rate was, say, 13 per cent.
3. The extent to which the federal government would be willing to make tax room available with respect to sales taxes.

These are all questions outside our purview, but we should like to make a few observations we think pertinent.

With a combined sales tax rate of about 13 per cent, it might be argued that the retail sales tax field would be pre-empted, in the sense that the avoidance and evasion which would result from higher rates would preclude the provinces from raising their rates. We doubt very much that there is a particular rate beyond which the retail sales tax system would break down, so that we do not think this point of view has much substance. Nevertheless, we acknowledge the obvious: there can be no doubt that there would be more problems in raising the rate from 13 per cent to 15 per cent than from 5 per cent to 7 per cent.

The basic issue here is not whether the sales tax rate could be increased but whether it should be increased. As we said in our earlier discussion of the tax mix, we are opposed to increasing the relative weight of indirect taxes. There is no reason to believe that increasing the weight of sales taxes would materially improve Canada's international competitive position. We doubt that a greater reliance on sales taxes would have a significant effect on the rate of saving and, hence, on the rate of growth. While the exemption from sales tax of the necessities of life or the provision of credits for sales tax against income tax liabilities can convert a sales tax into a reasonably equitable taxing instrument, we do not believe that sales taxes can achieve the same degree of equity that income taxes can achieve. All in all, we are convinced that, in the future, Canada should gradually try to reduce, not increase, the relative weight of sales taxes. This can be achieved by not increasing the total of federal and provincial sales tax rates and by allowing the growth in income tax revenues over time to reduce gradually the relative importance of sales tax revenues. If the provinces should require more revenues, we believe that, on the basis of all of the information available to us, increases in provincial personal income tax rates would be preferable to increases in sales tax rates.

If sales taxes are less desirable taxes than income taxes, as we suggest, why should the provinces be led to rely more heavily on sales taxes than they

do at present? First, as we discussed in Chapter 8, we acknowledge that in a system with three levels of government it is desirable that each level have a tax source over which it has primary control in order to maintain fiscal responsibility. Secondly, we are of the opinion that, having regard to the sales tax rates that are likely to be in effect in Canada in the foreseeable future, changes in sales tax rates cannot be used effectively to stabilize the economy, except to impose special excise taxes on goods in particularly short supply in inflationary periods. On the other hand, changes in personal income tax rates are a potentially important stabilizing tool. This means that, at least until a joint stabilization strategy has been developed, the federal government must have manoeuvring room with respect to personal income tax changes. This in turn means that the federal proportion of personal income tax revenues should not be further reduced. If the federal government is going to make more tax room available to the provinces, it is important that some source other than personal income taxes be ceded. Thirdly, we would like to see the federal government obtain exclusive jurisdiction over the corporation income tax, and equivalent revenues would have to be offered in exchange. Fourthly, although we have no strong evidence on the subject, we think that of the two taxes, the sales tax is more efficiently administered at the provincial level than the income tax. It does not seem unreasonable to suggest that the provincial revenues should depend heavily on the tax that the provinces can most effectively administer.

CONCLUSIONS AND RECOMMENDATIONS

1. While consultation with the provinces should occur, the federal government should continue to play a predominant role in income tax matters in order that it may:
 - a) Pursue an effective stabilization policy.
 - b) Ensure that the income tax does not become a device through which the stronger provinces take advantage of the weaker.

- c) Ensure that redistributive objectives are recognized.
2. The federal and provincial governments should seek common bases for income and sales taxes. Obviously we hope that these common bases would embody our major recommendations.

PERSONAL AND CORPORATION INCOME TAXES

3. The federal government should seek to become the collection agent for all personal income taxes. Administrative policy would be established mutually and the provinces would have full access to all information necessary to ensure that their interests were being safeguarded.
4. The recommended integration of personal and corporation income taxes would be greatly facilitated if the federal government obtained exclusive use of the corporation income tax by providing the provinces with a share of the corporation income tax revenue or, alternatively, with retail sales tax room. The federal government would give resident shareholders full credit for the corporation income tax.
5. If the provinces would not agree to withdraw from the corporation income tax field, the federal government should provide resident shareholders with full credit for federal corporation income tax and a standard rate of provincial corporation income tax.
6. Federal and provincial income tax rates should be harmonized. The simplest course would be to continue the present system of federal abatements, with the provinces levying personal income taxes as a percentage of the federal tax. An upper limit to the provincial rate would be necessary to prevent postponement of personal income tax through the retention of corporate earnings. To abandon the present

system in order to forestall fallacious "double" taxation arguments or to make clear to the taxpayer what is being collected, and for whom, would add needless complexities.

7. Provinces may wish to impose a more progressive or a less progressive tax system than the federal rate structure would achieve. This would necessitate separate provincial rate structures. Although more cumbersome, this would pose no insoluble technical problems if the combined federal and provincial top marginal personal rates did not greatly exceed 50 per cent.

RETAIL SALES TAX

8. The federal government should seek to establish with the provinces a joint indirect retail sales tax that would replace the manufacturer's sales tax and the present provincial direct retail sales taxes.
9. The constitution should be amended so as to allow the provinces to levy an indirect retail sales tax on a common base agreed upon by all governments.
10. This base should take into account our recommendations in Chapter 29 on the scope and coverage of the retail sales tax.
11. If it can be arranged, this composite sales tax should be administered by the provinces under a mutually determined policy with guarantees that would protect the federal revenue.
12. Should the federal government wish to make more tax room available to the provinces in the future, we recommend that the federal rate of tax on this common sales tax base should be reduced.
13. Each province should be free to set its own rate of tax on the common sales tax base and could do so without damage to the system.

REFERENCES

- 1/ See also James Lynn, Federal-Provincial Fiscal Relations, a study published by the Commission.
- 2/ Statutes of Canada, 1960-61, Chapter 58.
- 3/ Income Tax Regulations, Part XXVI.
- 4/ Ibid., Part IV.
- 5/ As we state later, we would prefer that the federal government seek exclusive use of the corporation income tax. However, if this was not acceptable to the provinces, federal collection of provincial corporation income taxes would be desirable.
- 6/ The Quebec personal income tax rates are virtually a constant proportion of the federal rates.
- 7/ British North America Act, section 91(3).
- 8/ Ibid., section 92(2).
- 9/ See Cairns Construction Ltd. v. The Government of Saskatchewan, [1960] S.C.R. 619.
- 10/ [1951] S.C.R. 31.
- 11/ This, in effect, is the present legislative scheme regarding the personal income tax.
- 12/ As is indicated above, under an indirect form of retail sales tax, it might be considered necessary to require retailers to keep track of sales by province of destination and allow retailers with a high volume of low value items to pay tax on the direct basis. An indirect form of tax would not necessarily mean that all record keeping would be eliminated.

13/ J. F. Due, Provincial Sales Taxes, Toronto: Canadian Tax Foundation,
1964, p. 178.

14/ This is a conditional statement of fact and neither a prediction nor
a recommendation.

APPENDIX A

ASSUMPTIONS UNDERLYING OUR ESTIMATES OF THE REVENUE YIELD AND INCIDENCE OF CURRENT AND PROPOSED DIRECT TAXES

The notes set out in this appendix provide brief explanations of how the various estimates presented in Chapters 35 and 36 were determined. As such, they constitute a convenient summary of the assumptions used in estimating what the revenue yield and incidence of the recommended comprehensive-base income tax would have been in 1964. Further details may be found in certain of the studies published by the Commission and referred to in these notes.

With some exceptions, the notes are numbered in the order in which they are referred to in the tables in Chapter 35.

RECONCILIATION OF THE ACTUAL AMOUNT OF PERSONAL INCOME TAX REVENUE FOR 1964 TO THE REVENUE THAT WOULD HAVE RESULTED IN 1964 UNDER CURRENT (1966) TAX LAW (TABLE 35-2)

1. The 1964 federal income tax accruals shown are preliminary figures for 1966 Taxation Statistics, Part One (Individual Tax Statistics for 1964), obtained from the 1964 tax return sample supplied to us by the Department of National Revenue. This sample did not consist of the actual income tax returns but rather of data which were extracted from the tax returns by the Taxation Division. No taxpayer identification was divulged. The sample thus consists of unidentified data from each of 417,000 tax returns from which the tables to be published are aggregated. Its selection is described in 1966 Taxation Statistics, Part One, p. 97. These figures exclude taxes paid by members of the armed forces as well as the effects of late collections and reassessments.
2. Personal income tax abated to the provinces was calculated as 18 per cent of the total personal income tax before abatement, less an estimate of the tax on income arising in the Yukon Territory, the Northwest Territories and outside Canada. The estimated abatement of \$433 million to all the provinces for 1964 compares with a total of \$336 million in total provincial income taxes, including amounts in excess of the abatement, accrued in 1964 for provinces other than Quebec.

3. The 1964 personal income tax base under 1964 tax law was obtained from the 1964 tax return sample. It represents the difference between the \$14,172 million of taxable income assessed to taxpayers and the \$861 million excess of exemptions and deductions over total income assessed on non-taxable returns. This figure does not take into account any estimate of the excess of exemptions and deductions over total income assessed to persons not filing returns.
4. The estimate of the effect of paying the old age security pension and eliminating the \$500 old age exemption to persons between the ages of 65 and 70 who filed tax returns in 1964 was based on data obtained from the source cited in Note 1. More than 170,000 persons in this age bracket filed tax returns in 1964.
5. The estimate of deductible Canada Pension Plan premiums was based on calculations for the average taxpayer in each of 19,370 classes into which the 417,000 tax returns in the sample were aggregated. The classification of returns is described in Appendix B to this Volume. It was assumed that all wages of taxpayers in 1964 were fully subject to assessment for Canada Pension Plan contributions. Self-employed persons paying less than maximum contributions on employment income were assumed to pay both employer and employee premiums on income from self-employment to the extent necessary to bring premiums paid by and for the taxpayer up to the maximum. The detailed calculations are described in computer programmes in J. Bossons, A General Income Tax Analyzer, a study published by the Commission and hereinafter referred to as Analyzer.
6. In calculating the tax on the revised 1964 personal income tax base, adjustments were made for changes enacted between 1964 and 1966 in the scope of the personal income tax base and 1964 tax rates were used. The tax was aggregated from calculations for average taxpayers in each of 19,370 classes as described in J. Bossons, Analyzer. The tax includes old age security tax as well as personal income tax before abatements to the provinces. The \$2,779 million of tax on the revised base is \$36 million less than what was actually accrued in 1964 on the unadjusted tax base.

7. The revenue loss of \$103 million resulting from changes in tax rates is an estimate of the effect of the 20 per cent reduction, up to a maximum of \$20, in personal income tax before abatement to the provinces enacted in 1966, and is based on calculations cited in Note 6.

8. "Sample averaging errors" consist of an estimate of the effect of calculating the taxes accrued in 1964 from averages for each of the 19,370 classes into which the 1964 tax return sample was classified, rather than calculating the tax accrued on each tax return in the sample individually. The estimate is based on calculations described in the listing of sub-routine SUMDAT in J. Bossons, Analyzer.

CHANGES IN THE 1964 CORPORATION
TAX BASE (TABLE 35-4)

9. The 1964 corporation tax base for companies taxable under the current tax law was obtained from preliminary figures for Table 1 of 1966 Taxation Statistics, Part Two, supplied to us by the Department of National Revenue.

10. The estimate of the percentage depletion allowances deducted by taxpayers with income from mining and petroleum in 1964 was obtained from preliminary figures for Table 4 of 1966 Taxation Statistics, Part Two, supplied to us by the Department of National Revenue.

11. Unpublished figures supplied by the Department of National Revenue indicate that in recent years the amounts deducted under the three-year exemption for new mines have been approximately the same as the total depletion allowance claimed on income from mining and petroleum operations.

12. Our estimate of the effect of eliminating special provisions defining the taxable income of life insurance companies was based upon figures supplied by the Department of Insurance. Chapter 24 contains further details of the proposals that affect this estimate and of the composition of this change in the tax base. Since the imposition of the special branch tax would be extended to the income of non-resident life insurance companies

and since the taxation of the foreign source income of Canadian companies should provide more revenue than the existing taxes on all life insurance companies, we have included in this estimate all the income which would be taxable under our proposals from the selling of life insurance in Canada. This corporate income is distributed approximately as follows: federal companies—\$100 million; non-resident companies—\$40 million; provincial companies and fraternal benefit societies—\$10 million.

13. Our estimate of the effect of other changes in the definition of the income of financial institutions was based upon information supplied by the Department of Insurance, the Inspector General of Banks and the Department of National Revenue. This amount does not include the transitional adjustments that would be required to reduce the balances of the reserves for tax purposes as at the effective date of the legislation implementing our proposals. An estimate of the latter figure is included in the amounts set out for the transitional period in Chapter 35.

14. The effect of including capital gains and losses realized by corporations in the corporation tax base was estimated on the basis of United States data on capital gains and losses reported by corporations in different industries. Our estimate of a \$200 million increase in the tax base represents less than 5 per cent of total corporate profits before tax and excluding such gains, compared to the United States average of more than 8 per cent. Some details of how this estimate was derived are presented in G. R. Conway, The Taxation of Capital Gains, a study published by the Commission. This amount reflects the proposal that all so-called "nothings" should become deductible.

15. An estimate was made by the Commission staff of the minimum amount that would be added to the tax base from, among other things, a reduction of tax avoidance. This estimate took into account our proposals concerning foreign source income, increased reporting requirements, increased audit work by the tax authorities and elimination of other avenues for tax avoidance and tax minimization.

16. An estimate was made by the Commission staff of the effect of the recommended 100 per cent capital cost allowance to be allowed to companies which qualify as new and small businesses as defined in Chapter 22. An acceleration of capital cost allowances should not in principle affect the tax base in the long run, as it would represent only a more rapid write-off of amounts that would be deductible in any event. However, as it could be expected that new and small companies would continue to be formed at an increasing rate, an acceleration of write-offs would in fact reduce tax revenues, the amount of loss being dependent upon the increase in qualified capital expenditures over the amount that qualified in the prior year.

17. The effect of extending the carry-forward period applicable to corporate losses was estimated by the Commission staff. This amount reflects only the business losses of corporations. An estimate of capital losses was deducted in arriving at the amount of net capital gains as set out in Note 14. This estimate was based on figures for total losses and for losses deducted as reported in Taxation Statistics for the taxation years 1950 and 1964.

CORPORATE SOURCE INCOME ATTRIBUTABLE TO RESIDENT
INDIVIDUALS IN 1964 (TABLE 35-5)

18. Estimates presented in Table 50, National Accounts Income and Expenditure, 1964, indicate that dividends paid to residents of Canada who were individuals, trustees of Registered Retirement Income Plans and charitable organizations (hereinafter referred to as "residents") were 47 per cent of the total dividends paid to residents and non-residents in 1964. The \$610 million shown for 1964 in the National Accounts for dividends paid to residents exceeds the sum of the \$451 million that was reported on the tax returns of individuals and the \$50 million that we estimate was received by charitable organizations and those financial intermediaries, primarily pension funds, that are classed as persons in the National Accounts. We assume the difference to be primarily unreported dividend income; this compares to the approximately 10 per cent of total dividend income estimated to be unreported in 1958 in the United States by D. M. Holland, Dividends

Under the Income Tax, Princeton: Princeton University Press, 1962. In the 1965 edition of the National Accounts the figures for dividend payments to residents and non-residents in 1964 were revised. The estimate of dividends paid to Canadian persons was increased to \$677 million and the percentage of these dividends to total dividends became 49 per cent. The procedure we have followed for grossing-up the actual dividends reported by individuals filing tax returns to a figure equal to the portion of corporation profits attributable to resident individuals means that any currently unreported dividends from resident companies are included in our estimates of the comprehensive tax base. This procedure is discussed in Note 28.

We have assumed that the percentage of total corporate source income attributable to residents was 47 per cent. That is, we have assumed that average pay-out ratios were approximately the same for resident and non-resident-owned companies. We reviewed data supplied to us by the Department of National Revenue for large private companies and the published financial statements of several large public companies. For all these companies we obtained estimates of the proportion of foreign ownership from reports submitted under the Corporations and Labour Unions Returns Act, S.C. 1962, Chapter 26. Pay-out ratios varied greatly among companies, and in the aggregate the pay-out ratio was slightly higher for the portion of profits attributable to non-residents. However, we were not able to obtain reliable information on dividend pay-out rates for small and medium-sized companies. Because there was not a very great difference between the pay-out ratios for the large companies owned by residents and for the large companies owned by non-residents that were analyzed, we estimated that the proportion of profits attributable to non-residents was the same as the proportion of dividends paid to them.

We also reviewed the information on ownership ratios published in the Report for 1962 submitted under the Corporations and Labour Unions Returns Act and in The Canadian Balance of International Payments, 1961 and 1962 and

International Investment Position. As these publications concern the year 1962 and not 1964; as the profit figures they show are not readily reconcilable to the amounts reported in Taxation Statistics, Part Two; as we encountered a number of other difficulties in attempting to use the data presented in these publications, and as in any event the results reported therein do not differ greatly from the percentage based upon estimated aggregate dividend payments, we have used the figure of 47 per cent as being the portion of the corporation tax base attributable to residents.

19. The estimate discussed in Note 18 of the portion of the current corporation tax base attributable to residents represents an average for all industries. Because of inter-industry differences in ownership fractions, it is not applicable to the net increases in the corporation tax base that would be brought about by our proposals. As a result we have used estimates of the percentages of ownership by non-residents for each industry affected by each major item of change in the base in order to give appropriate weight to each change in the base in arriving at the aggregate amount attributable to residents and non-residents respectively. The estimates that we have used for the fraction of the non-resident interest in the tax changes are as follows: mining and petroleum, 67 per cent; life insurance companies, 40 per cent; manufacturing, 54 per cent; and others, an average of over 20 per cent. Because of the concentration of non-resident ownership in larger companies, a relatively small proportion of base changes resulting from the effects of extended loss carry-over provisions and of accelerated capital cost allowances for new and small businesses was assumed to be attributable to non-residents. Moreover, we have adjusted our estimates to reflect the impact of our proposals on a number of large companies in which the degree of foreign ownership differed from the industry average.
20. Our allowance of \$100 million for the delay in the attribution of part of the corporation tax base to resident individuals is primarily a result of the deferment of tax on corporate income paid or attributable to Registered Retirement Income Plans. In 1964 the Canadian dividends received by intermediaries who

would generally not be taxable under our recommendations--the trustees of Registered Retirement Income Plans and charitable and certain other organizations as defined in Chapter 20--totalled almost \$50 million. However, our proposals would not as a consequence have reduced the tax base by over \$200 million, the before-tax corporation income underlying these dividends if one assumes an average pay-out ratio of 50 per cent, because we have proposed that individuals receiving benefits from Registered Retirement Income Plans or charitable or other organizations should include such benefits in income. The reduction in the tax base would result because the growth in Registered Retirement Income Plans would mean that for many years benefits paid would be less than the amounts received by the plans. In addition, many of the benefits disbursed by charitable organizations would be received by individuals with low incomes and therefore would not be subject to tax. We therefore arbitrarily assumed that, at least for a number of years, the collection of tax would be deferred on an amount equivalent to half of this corporate source income. It was assumed that the balance of the corporate source income underlying the dividends paid to these tax-exempt organizations would in effect "flow through" to individual beneficiaries who received payments from these intermediaries. This portion of the corporate source income would thus be taxable immediately.

21. As we stated in Chapter 19 and in Appendix M to Volume 4, net capital gains realized by resident individuals on shares of corporations were assumed to be equal to dividends of Canadian companies reported by individuals filing income tax returns. Because capital gains due to retentions would already be brought into the comprehensive tax base through our integration proposals, net capital gains or "goodwill" gains are defined as total gains less changes in surplus as reported in published financial statements.

Data on the relative importance of dividends, retentions, and goodwill gains for 64 Canadian companies accounting for roughly 25 per cent of total taxable Canadian corporate income in 1964 are presented in J. Bossons,

Rates of Return on Canadian Common Stocks: Dividends, Retentions, and Goodwill Gains, a study published by the Commission. For 26 companies not in the resource industries, for which data covering a period of 10 years were collected, the average rate of return over the years 1955 to 1964, weighted both by size and by degree of Canadian ownership, was 12 per cent. Of this total return, 32 per cent was accounted for by dividends and 23 per cent by retentions; the remaining 45 per cent resulted from accrued goodwill gains. For 11 resource companies, the average rate of return over this period was 11 per cent; dividends accounted for 34 per cent of the total return and accrued goodwill gains accounted for 45 per cent. In both cases, capital gains resulting from the retention of earnings not now taxed at the corporate level have been included in the retention figure because most of such gains would be brought into the expanded corporation tax base under our proposals. The revenue implications of taxing this income have already been included in Table 35-4. However, some reported retentions would still be untaxed at the corporate level, and to ignore them would to some extent under-estimate taxable goodwill gains. Hence, an amount was included to reflect this kind of income, as we indicate in Note 22.

Even though the period 1955 to 1964 included several years with low total goodwill gains or even goodwill losses for the 37 companies analyzed, the goodwill gains for all 37 companies combined over these 10 years averaged \$569 million a year, of which \$321 million was attributable to residents. Our estimate of taxable capital gains of \$451 million on all corporate stock owned by Canadian residents is thus only 40 per cent larger than the average goodwill gains attributable to residents from these 37 stocks alone.

For these 37 companies, goodwill gains attributable to residents were roughly 130 per cent of dividends for the period 1955 to 1964. Data were collected over a longer period for 21 of these companies; on the average, goodwill gains attributable to residents were 120 per cent of dividends paid to residents for these companies between 1945 and 1964. Data were also

collected for an additional 27 companies for the 4 years 1961 to 1964; for these companies the ratio of goodwill gains attributable to residents to dividends paid to residents was more than 35 per cent higher than the value of the same ratio for 1961 to 1964 for the 37 companies for which a longer period was covered. All this and other data presented in J. Bossons, Rates of Return on Canadian Common Stocks indicate that the rates of goodwill gains to dividends is not overly sensitive to the type of company or length of period analyzed; in virtually all cases of large firms owned by residents, goodwill gains exceed dividends on shares.

We appreciate that the time period employed for this study may be part of a period—the postwar years—when average increases in share prices were higher than could be expected if one used a much longer time period for analysis, for example, a period which included the depression of the 1930's. However, net capital gains may well be a smaller multiple of dividends for many smaller companies than the above sample would indicate. On the other hand, we have not analyzed a number of rapidly growing companies of moderate size which have high capital gains in relation to dividends. In any case, our assumption that realized gains equal reported dividends produces an amount that is substantially less than the figure that would result if the above percentages were applied to the total dividends actually received or attributable to resident individuals.

Because our estimates are of long-term yields, we have assumed that realized and accrued capital gains will be roughly equal, particularly with respect to gains on stocks of large, widely traded firms. Additional discussion of the relationship between accrued and realized gains based upon United States data appears in G. R. Conway, The Taxation of Capital Gains, a study published by the Commission. Our estimates reflect our recommendation that transfers at death should be deemed to be dispositions for tax purposes and that losses at the corporate level should be eligible for an unlimited carry-forward.

In order to allow a margin for error, we have based our estimate of taxable gains on an assumption that goodwill gains realized by individuals are no more than equal to reported dividends. Because reported dividends are less than actual dividends received by resident individuals, and because we have not included dividends received by tax-exempt intermediaries (see Note 20) in the amount to be "matched" by goodwill gains, this procedure means that we are in fact estimating goodwill gains to be substantially less than dividends.

22. It was assumed in allocating the corporation tax base and tax that 95 per cent of dividends received would carry the full credit for corporation tax paid on behalf of resident shareholders. The remaining \$22 million of dividends received was assumed to be paid out of surplus reported by corporations that was not surplus for tax purposes, that is, that was "income" that had not yet been taxed. This difference would arise primarily because the depreciation recorded in the accounts of many companies would be less than the capital cost allowance claimed for tax purposes. Our proposals would mean that this would be particularly applicable to mining and petroleum companies. Once assets were fully depreciated, the aggregate income reported and the aggregate income taxed over the intervening years would be equal, but in the interim, income reported for corporate purposes would generally exceed the income as determined for tax purposes. As corporation tax credits would be attributed only for corporation tax actually paid, any dividends distributed from this untaxed surplus would not carry a tax credit. We have recommended that such dividends should be regarded as a return of capital and should be applied to reduce the cost basis of the shares. This procedure would delay the imposition of tax, but when the shares were disposed of, or disposition was deemed to take place, this amount would be brought into income. Thus, we have included an amount in the tax base to reflect the fact that in a growing economy there will continue to be distributions from untaxed surplus. We allocated this amount among taxpayers in proportion to total dividends reported.

CHANGES IN 1964 TAXES ACCRUED AT THE CORPORATE LEVEL
AS A RESULT OF OUR PROPOSALS (TABLE 35-6)

23. Total 1964 corporation tax revenues under the current tax legislation were assumed to be the amount actually reported in 1964 to the federal government before deducting any provincial tax credits—for Ontario or Quebec—or foreign tax credits. As this amount includes both the federal income and old age security taxes and the provincial income taxes for all provinces except Ontario and Quebec, with the abatements to these two provinces being included in the total by adding back the provincial tax credits, it is a slightly larger figure than would result if corporate taxable income was subject only to the dual rate of 21 per cent and 50 per cent. This small overstatement arises because the extra 1 per cent of tax levied by Manitoba and Saskatchewan is included in the provincial income tax total. The 1964 total corporation income tax declared of \$1,935 million was derived from preliminary figures for Table 1 of 1966 Taxation Statistics, Part Two which were supplied to us by the Department of National Revenue. The tax on section 105 distributions was estimated to total \$6 million in 1964, based on an extrapolation of data for previous years.

24. As is pointed out in Note 19, the figure of 47 per cent that we have employed to estimate the portion of the present corporation tax base that is attributable to residents cannot be similarly applied to all other amounts. In allocating the present corporation income tax revenues among residents and non-residents we applied this percentage to the tax that would have been payable if the full 50 per cent rate of tax had been applicable to all income, and then reduced this amount to reflect the estimated impact of the dual rate of corporation tax. For resident individuals \$177 million was deducted to reflect the dual rate, resulting in an attribution of a total of \$854 million in corporation income taxes to resident individuals and exempt institutions. We assumed that all of the \$6 million of section 105 tax was attributable to residents.

25. The portion allocable to non-residents of the amount by which tax at 50 per cent on the present corporation tax base would be reduced by the impact of the dual rate of tax was estimated to be \$81 million, based on an analysis of the distribution of non-resident ownership of companies in different income classes reporting under the Corporations and Labour Unions Returns Act.

26. Corporation taxes accrued under our proposals which are attributable to shares owned by residents, including the trustees of Registered Retirement Income Plans, were estimated at 50 per cent of the \$2,242 million of net corporation tax base shown in Table 35-5 as being attributable to residents.

27. Corporation taxes accrued under our proposals which are attributable to shares owned by non-residents were estimated at 50 per cent of the difference between the \$4,946 million of total corporation tax base shown in Table 35-4 and the \$2,242 million attributed to residents as indicated in Table 35-5.

28. Current corporation income taxes for 1964 in the amount of \$804 million attributable to resident individuals were allocated among taxpayers in proportion to the amount of the corporation tax base attributable to them. Of the total current corporation tax base attributable to resident individuals of \$1,962 million, the before-corporation-tax equivalent of the amount distributed to shareholders in section 105 allocations amounted to \$67 million and was allocated among taxpayers with currently taxable income in excess of \$25,000 in proportion to dividend income reported. The balance of the attributable corporate base was allocated among all taxpayers in proportion to dividends received. The \$6 million of tax on section 105 distributions was allocated in proportion to section 105 allocations and added to the corporation income tax attributed to each taxpayer. The allocation procedure is described in more detail in Appendix M to Volume 4, and in the programmes listed in J. Bossons, Analyzer, a study published by the Commission.

THE EFFECT OF PARTICULAR REFORMS ON EACH COMPONENT OF THE
GROSS PERSONAL INCOME TAX BASE FOR 1964 (TABLE 35-7)

29. Attributable benefits include all those amounts expended by employers for the benefit of their employees that are not reported as salary or wages and that are not already included in the employees' incomes as taxable benefits. They also include other benefits, not now included in taxable income, that are received by individuals in exchange for services rendered or as benefits under various kinds of income insurance plans. The estimate of \$674 million reflects only benefits attributable to individuals currently filing tax returns. On the basis of data reported in various government publications, it is likely that benefits under income insurance plans alone (unemployment insurance, unemployment assistance, workmen's compensation, accident and sickness insurance, and group life insurance) aggregate roughly \$900 million. Most of the benefits not included in our estimate would be attributable to individuals who are not currently paying taxes and who would not be subject to tax under our proposals.

Attributable benefits were allocated to taxable returns on the basis of data contained in each of the individual tax returns in the sample of 417,000 tax returns provided to us by the Department of National Revenue. Of the total of \$674 million, top employee benefits amounted to \$28 million, other employee benefits to \$370 million, and benefits attributable to self-employed individuals amounted to \$276 million. Top employee benefits were estimated as 5 per cent of wages and salaries in excess of \$10,000. Other employee benefits were estimated as 2 per cent of wages and salaries up to a maximum of \$300 for all employees receiving more than \$2,500 in wage and salary income in 1964. Benefits attributable to self-employed individuals were estimated at 3 per cent of expenses, other than capital cost allowances, deducted in computing business and professional income. In all cases, total benefits attributable to any taxpayer were limited to no more than \$1,500; in addition, certain other constraints were placed on all estimates to remove possible anomalies. For full details, see the listing of the BENEFITS function in J. Bossons, Analyzer.

30. The amounts added to the tax base because of the inclusion of capital gains and losses also reflect sundry other proposals we have made in order to arrive at a comprehensive tax base, for example, the taxation of net gambling gains. The data underlying our assumptions regarding capital gains and losses realized on corporate stock are outlined in Note 21, where it is pointed out that net capital gains on corporate stock were estimated at an amount equal to dividends currently reported by resident individuals. Net capital gains realized on the disposal of assets of unincorporated businesses were allocated on the basis of 8 per cent of net unincorporated business income reported on each 1964 individual tax return. Other gains, including real estate gains, gambling gains and other minor additions to the tax base, were allocated to individuals filing tax returns as 100 per cent of net rental income plus 15 per cent of income from fixed income securities and other Canadian non-equity investment income. The attribution process is described in programmes listed in J. Bossons, Analyzer. The resulting aggregate estimate of \$795 million of realized gains and losses also includes the effect of taxing non-residents on gains and losses realized on real property in Canada and on rights thereto.

Detailed statistics are not available concerning the amounts of property gains and losses now realized in Canada that are not subject to taxation. We have therefore relied to some extent on United States statistics in arriving at an estimate of the Canadian revenues which would result from the inclusion in income of all property gains and losses.

While the relative importance of capital gains as a source of revenue in the United States may not have been significant a number of years ago, this is no longer the case. For example, United States statistics indicate that while only 2 per cent of the personal tax returns filed in 1942 showed realized capital gains or losses, in 1962 about 9 per cent of the returns filed included this item. The relative proportion of total personal income tax derived from capital gains has also increased, with less than 1 per cent of personal income tax revenues derived from this source in 1942 and about 5 per cent in 1962. The total

net gains reported by individuals in the United States in 1962 (the excess of gross gains over gross losses, before the 50 per cent exclusion for net long-term gains and before the exclusion of non-deductible losses) amounted to \$11 billion, which is over 3 per cent of total United States adjusted personal gross income before the inclusion of net gains and losses.

In the five years 1960 to 1964 the United States raised on average almost 6 per cent of the personal income tax revenues from the taxation of capital gains, with a smaller proportion of corporation tax revenues being attributable to this source. This revenue yield was obtained despite the fact that in the United States realized capital gains are taxed at half rates, up to a maximum rate of 25 per cent, and gains or losses on dispositions by gift or bequest are specifically excluded from the income tax base. At the same time, the deduction of capital losses is restricted in the United States. However, some gains which are treated as capital gains in the United States are already taxable in Canada.

A number of adjustments have to be made to the United States figures in order to derive an estimate of the amount that might be expected to be realized as property gains and losses in Canada. However, a number of these adjustments tend to offset one another, with the result that we would expect the amounts shown in a special United States Treasury Department study of capital gains in 1962 to provide a reasonable indication of what could be expected in Canada. Detailed discussion of the necessary adjustments is contained in G. R. Conway, The Taxation of Capital Gains, a study published by the Commission. The following brief comments indicate the magnitude of the amounts involved.

In the year of the special study, 1962, capital gains and losses were relatively lower than in a number of other years. If the 1962 figures were adjusted to reflect an average of the gains and losses reported in proportion to other income over the five years 1960 to 1964, they would be increased by over 11 per cent.

Our review of the available material leads us to believe that the inclusion in income of gains and losses realized on dispositions of property by gift or bequest, and on the disposition deemed to occur when a taxpayer gave up his Canadian residence, would increase reported gains by a very substantial amount, as would the better reporting of gains and losses that could be expected under our proposals because of the requirement that taxpayers list all holdings of property. On the other hand, approximately one quarter of the gains and one fifth of the losses realized in the United States in 1964 were from sources that would either already be taken into account under the present Canadian system or would be excluded from income under our proposals. In addition our proposals for the integration of the personal and corporation income taxes would eliminate that portion of the gains realized on the disposal of common shares that was attributable to retained earnings. If we assume that this would have eliminated half the gains realized on common stock in the United States in 1962, the total United States gains would have been reduced by another quarter. Also, the amount of reported capital losses would have been increased.

We estimate that the net effect of all the above adjustments would have been to increase the total amount of gross gains reported in the United States in 1962 by 35 per cent to 40 per cent and of gross losses by over 10 per cent. We refer to gross gains and gross losses as we propose that the full amount of gains and losses realized should be included in the comprehensive tax base.

An adjustment is also required to reflect the fact that on average Canadians realize a lower proportion of their income in the form of investment income than do United States citizens. Thus, it would be expected that the proportions of realized gains and losses to other income would generally be lower in Canada than in the United States. We have used the relative amounts of dividend income received as a basis for estimating what the relative proportions would be for gains and losses. Not only are the amounts of dividends reported a better basis for comparison between the two countries than the amounts

for investment income generally, because of the United States exemption for state and local government bond interest, but also it could be expected that realized gains and losses would more closely parallel dividend income than an amount that included income from fixed income securities. In Canada dividend income amounts to about 1.7 per cent of income (as that term is currently understood), while in the United States it amounts to about 3.2 per cent of adjusted gross income before including net gains and losses. Thus, in both cases the percentage is calculated on a figure which is determined without taking gains and losses into account. While Canadians with income between \$10,000 and \$25,000 appear to derive more of their income in the form of dividends than do United States citizens in the same income bracket, the balance of Canadians have relatively less dividend income.

Applying all of the above adjustments would mean that the United States figure for total net gains (gross gains less gross losses) of 3.2 per cent of adjusted gross income before such gains and losses were taken into account would be reduced under our proposals to the equivalent of about 2.7 per cent of income assessable under Canadian tax law. Applying this percentage to the \$27 billion of assessable income reported in Canada in 1964, and adding to the result approximately \$70 million for other small additions to the tax base of resident individuals, including net gambling gains, and for net gains on real property realized by non-residents, would result in a net amount of gains and losses realized by individuals of about \$800 million.

31. Increases in investment income were estimated by reconciling estimates based on individual tax return data with aggregate estimates based on other sources.

Unreported interest was assumed to be 70 per cent of reported non-dividend Canadian personal investment income up to a maximum of \$1,000 for each taxpayer, resulting in an aggregate estimate of \$377 million. This increase in the base was equivalent to about 50 per cent of non-dividend Canadian investment income. "Non-dividend Canadian investment income" excluded

income from dividends and annuities but included non-dividend income from trusts; the increase in the tax base resulting from the inclusion of unreported interest amounted in the aggregate to 58 per cent of "non-dividend Canadian investment income" less non-dividend income from trusts. On the basis of estimates made in the United States by D. M. Holland, "Unreporting of Dividends and Interest on Tax Returns", Volume 2, Tax Revision Compendium, Washington: United States Government Printing Office, 1959, p. 1397, and of discussions with the Department of National Revenue, we believe that the improved reporting requirements we recommend and the proposed partial accrual approach should increase reported interest income by more than 60 per cent so that the estimates we have used probably understate the amount of the total increase. The Holland paper estimated that unreported interest actually exceeded reported interest in the United States in 1957. Reported interest in the United States is reduced by the exemption for state and local bond interest, but even after adjusting for this amount Professor Holland estimated that unreported interest on average exceeded 90 per cent of the amount that would be equivalent to interest reported in Canada. For persons with adjusted gross income of under \$7,000, this figure was estimated to be 110 per cent.

Information supplied to us by the Department of Insurance indicates that the amounts to be included in the income of Canadian life insurance policyholders for policyholder investment income and participating dividends would total about \$500 million. We allocated these items in accordance with a base defined as 4 times non-dividend Canadian investment income plus currently assessable income in excess of \$3,000, reduced by 30 per cent for taxpayers over 65 years of age to reflect a likely reduction in attributable policyholder investment income for such taxpayers. The two items combined were estimated at about 1.7 per cent of this adjusted base. The precise estimating procedure is detailed in J. Bossons, Analyzer. The resulting aggregate estimates of policyholder participating dividends and investment income attributed to policyholders amounted to \$174 million and \$312 million, respectively. We

have employed figures lower than the aggregate estimated change in the tax base because some of the amounts would be attributable to individuals who would not pay taxes either under the current system or under our proposals.

The \$4 million entry under "Income From Corporate Shares" in Table 35-7 represents stockholder depletion allowances which would not be deductible under our proposals. Based on a detailed analysis of 1961 tax return data for an unidentified group of upper income taxpayers, stockholder depletion allowances were assumed to be 33 per cent of investment expenses claimed by taxpayers with investment expenses over \$600 and dividend income in excess of \$2,000.

32. Figures supplied by the Department of National Revenue show that gifts reported in 1964 on taxable and non-taxable returns totalled approximately \$165 million. Table 2, 1965 Taxation Statistics, Part Two, shows that the aggregate net value of estates for the 1964-65 fiscal year was \$818 million. Based upon figures reported in Volumes I and III of the 1964 Annual Report of the Superintendent of Insurance for Canada, we estimate that the amount of death claims paid under life insurance policies to Canadians that were not included in the net value of estates mentioned above exceeded \$225 million. To these figures must be added that portion of those gifts and bequests that is not now subject to tax, either because of the exclusions provided under the gift or estate tax legislation or because they are received from non-residents, and that exceeds the exclusions we propose. More explicit legislation and stricter reporting requirements should also reduce tax avoidance. From the total amount of estimated gifts and bequests exceeding the proposed exclusion for small amounts must be deducted an estimate of the amount of transfers that would be received by tax units who did not file tax returns in 1964 and who would continue to be non-taxable under our proposals. The foregoing factors would result in an estimate for transfers, in excess of exclusions, to individuals filing tax returns of about \$2,000 million. From this amount there must be deducted an estimate of transfers within the family unit. Based upon information contained in Carl S. Shoup, Federal Estate and Gift Taxes, Washington: Brookings Institution, 1965, and upon data provided

by the Ontario Committee on Taxation, we have reduced the above estimate of \$2,000 million by 40 per cent to arrive at an estimate for taxable gifts and bequests received from outside the family unit as we have defined it. The allocation of the resultant \$1,200 million aggregate estimate among individual taxpayers is described in the programme listing provided in J. Bossons, Analyzer. In our estimates of incidence under the present tax system, existing taxes on gifts and bequests were allocated in proportion to estimated gifts received.

33. The amount of child support transfer payments to be added to the tax base consists of family allowances, family assistance payments and youth allowances. The total payments received were estimated for each tax return filed on the basis of estimates of the number of children receiving family allowances and of the number of other dependants claimed by each taxpayer computed from total exemptions claimed and from additional marital status data. The estimating procedure is summarized in J. Bossons, Analyzer, particularly in the notes to Table B-6 and in the listings of subroutines FAMPAR and BASADJ. In projecting family characteristics and family and youth allowances from the estimates of the numbers of each type of exemptions claimed it was assumed that 70 per cent of dependants for whom \$550 exemptions were claimed were dependent children if the claiming taxpayer filed as married, that 30 per cent of these dependants were eligible for youth allowances of \$120 a year. It was also assumed that family allowances received for each eligible child amounted to \$80.60 a year. These assumptions are based on figures contained in The National Finances, 1964-65 and 1965-66, Toronto: Canadian Tax Foundation. On the basis of the 417,000 tax return sample, these assumptions imply aggregate estimates of 5,120,000 dependants eligible for family allowances and 489,000 dependants eligible for youth allowances for the 6,720,000 individuals filing tax returns. Family allowance and youth assistance payments of approximately \$120 million are not included in the estimate. This amount represents the child support transfer payments which are received by family units who currently do not file tax returns and who even under our proposals would continue to have incomes of less than the allowed exclusions.

34. There is almost no information available on which to base an estimate of the revenue implications of the proposals affecting unincorporated business income. The recommended accelerated depreciation for new and small businesses would be of relatively less value for the average unincorporated business than for the average small corporation, since over three quarters of the income of unincorporated businesses is derived by businesses in the service, retail or wholesale trade industries where the proportion of depreciable assets to total assets is generally smaller than for other industries. It would also appear that relatively small amounts of losses are now ineligible for deduction because of the limit on the loss carry-forward and the limit to one year on their deduction from other income. Also, our proposed limit on the deduction of "hobby business" losses would increase tax revenues. Again we assume both increases and decreases in revenue from the changes in the definition of business income for tax purposes and an increase in revenue from the elimination of many tax avoidance techniques.

Our aggregate estimate of a \$56 million reduction in the tax base has been pro-rated over individual tax returns generally in proportion to total net income from unincorporated business reported on each return. The major portion of this figure, \$49 million, represents our estimate of the effect of the recommended accelerated capital cost allowances for new and small businesses, and is allocated to individuals as 5 per cent of the net income from unincorporated business for each individual filing a tax return. The net effect of the proposals affecting the deductibility of business losses was assumed to be equivalent to allowing the deduction of five times the actual prior year's business loss deducted on each tax return in 1964, resulting in an estimated aggregate reduction in the personal income tax base of \$7 million.

35. Additional employment expenses deductible, in excess of those that are already deductible under the present legislation, were estimated for each tax return in the 1964 Taxation Statistics sample from data on age, wages

and salaries received, and union and professional dues deducted in 1964. The analysis is shown in detail in the programme listings of functions EMPLXP, OPXDED, and UICON presented in J. Bossons, Analyzer. Based on an assumption that 73 per cent of taxpayers reporting wage and salary income are covered by unemployment insurance, application of the standard method of computing unemployment insurance premiums yielded an estimate of \$150 million for aggregate premiums paid by individuals filing tax returns in 1964. We estimated that an additional \$622 million would become deductible under the general allowance of expenses incurred to earn employment income. Most of this total would result from the provision of the optional 3 per cent employment expense allowance, while the balance would be deducted through the claiming of specific expenses aggregating more than the 3 per cent of income.

36. As is shown in Table 35-5, the total 1964 corporation tax base attributable to resident individuals under our proposals would be \$2,142 million. As is stated in Note 22, it was assumed that 95 per cent of dividends received by residents would carry a credit for corporation tax paid and would be grossed-up to include such tax. Deducting these dividends from the corporate base attributable to individuals resulted in an estimated net addition to the income of resident individuals of \$1,714 million. From this amount the net increase of \$180 million in the corporation tax base attributable to resident individuals, which is shown separately, was deducted to show the effect of integration alone. The remaining sum of \$1,534 million was allocated among persons filing tax returns in the manner described in Note 28.

37. The method of determining the increase in the integrated corporation tax base is described in Note 19. It was allocated among persons filing tax returns in the manner described in Note 28.

INCREASE IN THE PERSONAL INCOME TAX BASE AS A RESULT OF PARTICULAR
REFORMS IN CONCESSIONARY ALLOWANCES AND FAMILY EXEMPTIONS
DEDUCTED IN COMPUTING TAXABLE INCOME (TABLE 35-9)

38. The amount of personal exemptions was derived by estimating for each tax return the number of \$1,000 exemptions claimed. These in turn were estimated for each return filed from data on the total exemptions claimed and marital status reported, as described in the notes to Table B-6 in J. Bossons, Analyzer. These estimates imply a total of 6,660,000 basic \$1,000 and \$2,000 exemptions claimed by a total of 6,720,000 individuals filing tax returns in 1964; the balance of 60,000 returns is accounted for by partially non-resident taxpayers. It should be noted that this number is overstated as a result of the Department's practice of understating total exemptions for partially non-resident taxpayers by the amount by which the standard deduction, if taken, has to be increased to make it equivalent to the full standard deduction.

The estimates of exemptions were obtained from data on each return in the 1964 sample; the only published data which can be used as the basis for such estimates are those contained in Table 7 of 1966 Taxation Statistics, Part One, which excludes non-taxpayers.

39. The estimate of exemptions for dependants was obtained in the manner described in Note 33. The underlying estimates made for each taxpayer imply a total of 5,120,000 dependants receiving family allowances and 1,450,000 other dependants.

40. Deductible educational expenses consist of tuition expenses in excess of \$25 under current tax law; they are assumed to be 90 per cent of miscellaneous deductions excluding investment expenses and prior year business losses.

41. The proposal to eliminate the special \$500 exemption for individuals of age 70 or more and for persons who are blind or confined to a bed or wheelchair would increase the tax base of individuals filing tax returns

in 1964 by at least \$142 million. This amount excludes the deductions formerly allowed to those from 65 to 69 years of age, which are reflected in Table 35-2. The estimate is based on the 1966 Taxation Statistics, Part One, in which it is reported that about 265,000 individuals filing tax returns in 1964 were age 70 or more. In addition more than 15,000 individuals would have claimed the \$500 exemption for being blind or confined to a bed or wheelchair.

The amount of medical expenses claimed would be decreased by the proposed limitation of the deduction to amounts paid by the taxpayer directly, instead of continuing to allow the deduction of amounts paid by insurers on behalf of the taxpayer. Because the 3 per cent floor would continue to apply, most taxpayers would find that their premium payments plus expenditures on non-insured medical costs would not exceed the limitations by very much--if at all. However, we have assumed that the increase in the base resulting from this change would be almost completely offset by the additional itemizing of medical expenses that would result from reducing the \$100 standard deduction to \$50 and limiting its applicability to charitable donations alone. However, the tax base would be increased by the proposed elimination of the special exemptions for the blind and disabled. We have included a net increase in the tax base of \$7 million to reflect these changes in deductible medical expenses.

42. Our estimates of the change in the tax base resulting from our proposals for the control and definition of charitable donations and the reduction of the standard deduction are described in the programmes listed in J. Bossons, Analyzer. Of the total addition to the tax base of \$356 million for these items, \$228 million is estimated to be derived from the reduction in the standard deduction from \$100 to \$50, after assuming that 20 per cent of the reduction would be offset by an increase in the amount of charitable donations reported and claimed.

TAX CREDITS APPLICABLE TO PERSONAL INCOME TAXES
FOR RESIDENTS IN 1964 (TABLE 35-11)

43. The amount of tax credits for dependants has been based on data for numbers of dependants estimated by the procedure described in Note 33. For 1964 dependent children of all individuals filing tax returns were estimated to total 6,135,000; other dependants were estimated to total 435,000.

44. On the basis of an assumed average tuition expense of \$400 per eligible taxpayer, tuition expenses have been assumed to be slightly larger than educational expenses estimated in the manner discussed in Note 40. The estimate of the number of students whose tuition expenses were deductible for each taxpayer was based on this assumed average tuition expense and the total tax credits were calculated for each eligible taxpayer as \$400 per student, \$300 for living expenses and \$100 for tuition expenses. Because tuition expenses are currently deductible only if the taxpayer was himself enrolled in a post-secondary educational institution, it was assumed that all such taxpayers would be eligible for the credit for living expenses, which would be limited to taxpayers outside the family unit. Details of the calculations are provided by the programmes listed in J. Bossons, Analyzer.

45. Credits applicable to income components include foreign tax credits of \$14 million and credits for working wives of \$49 million. In order to arrive at the amount which might be claimed under this provision, we assumed that all married female taxpayers filing as single for tax purposes were working mothers. More precise estimates would need data prepared on a family tax unit basis.

46. Current corporation taxes attributable to resident individuals were allocated as described in Note 28. This amount does not include the allowance for the net effect of extending the corporation tax credit to certain tax-exempt intermediaries (Note 20).

TOTAL PERSONAL INCOME TAXES UNDER THE CURRENT AND
PROPOSED TAX SYSTEMS (TABLE 35-13)

47. Unused credits are the result of a taxpayer's being eligible for tax credits which are greater than the tax payable before credits are applied.
48. The effect of aggregating income in family tax units cannot properly be estimated without classifying and merging the separate tax returns of individuals presumed to be members of a family unit. This projection is based on the results of a matching run done by the Department of National Revenue on its taxpayer identification file to obtain a cross-classification of paired husbands and wives and matched children and parents, all classified by income class. The estimate is based on reported currently taxable income and to some extent is understated by not being based on our concept of comprehensive income.
49. This effect of our proposals for additional income averaging procedures is based on a crude adjustment of an estimate prepared for the Department of Finance of the effect of a general averaging proposal that involved no restrictions on the required amount of variation in income.

APPENDIX B

CALCULATION OF THE CHANGE WHICH WOULD OCCUR UNDER OUR PROPOSALS IN THE TAXES PAID BY SEVEN SAMPLE GROUPS OF TAXPAYERS

The purpose of this appendix is twofold:

1. To show in detail in a number of examples how taxes have been calculated for each group of taxpayers in the sample underlying our revenue estimates.
2. To set out the basic data underlying all calculations for these example groups so that the data can be used as the basis for subsequent illustrations of the way in which various summary tables have been prepared.

In order to reduce the number of calculations to be made, the 417,000 personal income tax returns for 1964 in the 1966 Taxation Statistics sample were classified into a smaller number of groups. Tax returns were classified by income, by a "preliminary family status" variable reflecting marital and family status and the work status of the taxpayer's spouse, by a "dependant status" variable reflecting the total number of dependants and the number claimed by the taxpayer to be eligible for family allowances, by a combined age/occupation/sex variable, and by whether the taxpayer did or did not pay taxes in 1964. The number of classes in each classification was as follows:

47 income classes
7 "preliminary family status" classes
15 "dependant status" classes
26 age/occupation/sex classes
2 tax-paying status classes

Thus, a total of 256,460 different cross-classifications of tax returns was possible. In fact, because no tax returns were found to accord with particular combinations of characteristics in a large number of cases, it turned out that classifying 1964 tax returns in this way resulted in 19,370 groups of one or more taxpayers 1/. The variables underlying the classification

of taxpayers are shown in Table B-1, which presents the range of values of each variable for each of the seven groups shown as examples in this appendix.

Data from individual 1964 tax returns falling within each classification were aggregated to collect 46 variables for each of these 19,370 groups. The data collected for the seven groups chosen as examples are presented in Table B-2.

The calculation of average taxes under the current and proposed tax systems for each of the seven example groups is shown in Tables B-3 to B-9 inclusive. These tables show our estimates of the major effects of our proposals for each component of income and for each major category of concessionary allowances and tax credits for the average taxpayer in each group. The change in total direct taxes shown in these tables excludes the effect of the deferment of tax on the investment income of Registered Retirement Income Plans allocable to each taxpayer. The assumptions on which our estimates are based are summarized in Appendix A to this Volume; a complete description is provided by programme listings presented in a study published by the Commission 2/. Needless to say, our estimates are forecasts of what would happen on the average and are not necessarily accurate in particular cases.

The income components shown in Tables B-3 to B-9 inclusive consist of income from each source included in the personal income tax base, and have been adjusted to take account of changes in tax law between 1964 and 1966. Income not currently included in the personal income tax base but currently taxed through other direct taxes is reflected in the amounts reported for purposes of those taxes. Given total income, concessionary allowances, and tax credits allowed under each system for the average taxpayer in each class, personal income taxes payable are calculated using 1966 tax rates under the current system and the rate schedule presented in Chapter 11 under the proposed system. Other taxes are allocated in accordance with the assumptions summarized in Appendix A to this Volume.

In several subsequent appendices, totals are shown for all taxpayers classified into 20 income classes, which are defined in Table B-10. These income classes are based on comprehensive income rather than on currently taxable income because of the more accurate measurement of economic power provided by the former.

Summary data for the average taxpayer in each of the seven example groups are shown in Table B-11. This table also classifies these examples by comprehensive income class.

REFERENCES

- 1/ The classification of the sample is discussed in detail in J. Bossons, A General Income Tax Analyzer, a study published by the Commission and hereinafter referred to as Analyzer.
- 2/ J. Bossons, Analyzer.

TABLE B-1

DESCRIPTION OF TAXPAYERS PLACED
IN EACH EXAMPLE GROUP

	Example Group						
	1	2	3	4	5	6	7
Age	26-39	26-39	26-39	40-64	26-39	21 or under	65 and over
Sex	Male	Male	—	Male	Male	Male	Male
Marital status <u>a/</u>	Married	Married	Married	Married	Married	Single	Single
Number of dependants receiving family allowances <u>b/</u>	1	0	More than 4	More than 4	2	0	0
Number of other dependants <u>b/</u>	0	0	0	0	0	0	0
Occupation <u>c/</u>	Employee	Employee	Professional or proprietor	Investor	Employee	—	Pensioner
Income <u>d/</u>	\$5,500-5,999	\$12,000-12,999	\$30,000-34,999	\$30,000-34,999	\$50,000-74,999	\$3,000-3,499	\$1,500-1,749
Number of taxpayers	10,434	123	61	6	18	3,214	1,735
Number of tax returns sampled	408	28	61	6	18	149	68

Notes:

- a/ Marital status as used here means marital status for tax purposes. In fact, a somewhat more complicated "preliminary family status" classification was used in grouping tax returns, described in Tables B-1 and B-2 of J. Bossons, Analyzer, a study published by the Commission. The first five examples are all from preliminary family status class 1, the sixth from class 6, and the seventh from class 7.
- b/ The number of dependants of each type was estimated from data on total personal exemptions as described in the notes to Table B-6 in J. Bossons, Analyzer.
- c/ Taxpayers were classified by method of earning income rather than by type of work performed. Thus, a professional engineer and accountant working as a company employee was classed as an employee. The classification by occupation is described in Table B-5 of J. Bossons, Analyzer. The age/occupation/sex classification of the seven example groups is 5, 5, 8, 18, 5, 1 and 25 respectively.
- d/ "Income" is total assessable income under 1964 tax law, after the deduction of allowable expenses incurred in the earning of income other than investment income but before the deduction of concessionary allowances and family exemptions.

TABLE B-2

DATA ACCUMULATED FOR EACH EXAMPLE GROUP OF TAXPAYERS

	Example Group						
	1	2	3	4	5	6	7
1. Number of taxpayers	10,434	123	61	6	18	3,214	1,735
<u>Personal exemptions</u>							
2. Number of \$1,000 exemptions a/	20,867	245	122	10	35	3,214	1,725
3. Number of \$550 exemptions	0	0	0	0	0	0	0
4. Number of \$300 exemptions	10,434	0	335	30	36	0	0
5. Number of old age exemptions	0	0	0	0	0	0	1,735
6. Total personal exemptions (\$000)	23,997.2	245.0	2,212.5	19.0	415.8	3,214.0	25,912.5
<u>Personal deductions</u>							
7. Number of taxpayers claiming standard deductions	6,102	75	5	1	7	2,823	1,575
8. Number of taxpayers claiming medical deductions	2,392	1	1	0	1	81	60
9. Gross medical expenses (\$000)	854.7	0.6	1.2	0	1.0	27.0	9.3
10. Net medical deductions (\$000)	458.2	0.2	0.3	0	0.1	19.8	6.3
11. Number of taxpayers deducting union or professional dues	2,655	25	3	0	0	40	20
12. Dues deducted (\$000)	130.2	0.8	0.7	0	0	1.1	0.4
13. Number of taxpayers deducting both dues and medical expenses	1,210	0	0	0	0	20	20
14. Number of taxpayers claiming donations	3,860	47	56	5	11	370	140
15. Donations allowed (\$000)	794.2	20.1	48.0	4.5	10.4	67.4	17.9
<u>Income from employment, business or profession (\$000)</u>							
16. Employment income	59,641.1	1,392.1	89.1	37.4	936.6	8,918.5	742.2
17. Net business income	8.9	0.2	104.8	0	2.8	1,139.5	0
18. Net professional income	3.0	4.6	1,693.7	0	0	8.7	4.5
19. Net income from commissions	90.0	75.4	62.6	0	6.6	61.5	2.0
20. Net income from farming or fishing	17.5	0	9.1	2.2	0	190.6	12.5
21. Net rental income	100.5	0.1	1.1	13.1	21.9	67.1	3.3
22. Capital cost allowances	184.8	3.2	58.7	3.6	21.7	674.6	0
23. Business and professional expenses, excluding capital cost allowances b/	115.5	1.9	1,266.7	0	17.8	1,369.2	0
24. Prior year's business loss	0	0	0	0	0	0	0
<u>Investment income, deductions and credits (\$000)</u>							
25. Gross dividends from Canadian companies c/	38.1	2.4	7.6	78.8	64.9	12.0	30.5
26. Annuity income	0	0	0.3	0	0	0	16.1
27. Other Canadian investment revenue d/	57.3	59.0	13.4	60.6	29.0	75.3	649.4
28. Foreign investment income	0	0.4	0.2	0.17	0.2	0	0
29. Deductions from investment income	8.7	1.6	2.9	14.4	30.8	0.5	0
30. Dividend tax credit	7.1	0.5	1.1	14.4	11.1	2.3	0.3
31. Foreign tax credit	5.5	4.9	—	0.1	0.1	0	0
<u>Other income (\$000)</u>							
32. Old age pension	0	0	0	0	0	0	1,401.0
33. Alimony received	0	0	0	0	0	0	0
34. Other income e/	157.4	0.1	0.2	0	0.6	15.0	60.1
35. Income of spouses earnings less than \$1,250 f/	0	0	0	0	0	0	0

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(continued)

TABLE B-2 (continued)

DATA ACCUMULATED FOR EACH EXAMPLE GROUP OF TAXPAYERS

	Example Group						
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
<u>Other deductions (\$000)</u>							
36. Pension contributions	1,398.2	43.3	8.9	0.6	12.1	102.2	0
37. Retirement savings premiums	4.8	1.2	67.5	1.5	1.6	0.1	0
38. Alimony paid	36.8	0	0	0	0	54.5	0
39. Other deductions	185.9	5.6	0.1	0	0	46.5	—
<u>Total income, deductions and taxes (\$000)</u>							
40. Total income	59,877.8	1,533.8	1,963.5	192.7	1,062.5	10,488.0	2,921.8
41. Total deductions	27,624.5	324.7	351.3	40.1	101.5	3,788.5	2,774.6
42. Federal income tax payable in 1964	3,755.6	209.7	466.0	31.6	337.8	701.2	13.7
43. Provincial tax collected in 1964	559.4	21.0	69.7	7.3	46.5	109.7	1.6
44. Old age security tax	1,220.0	14.8	7.3	0.7	2.2	266.7	5.2
<u>Miscellaneous</u>							
45. Number of taxpayers liable for Quebec income tax	3,779	67	20	—	7	1,005	775

Notes: a/ The number of \$1,000 exemptions for a taxpayer may be fractional or even negative as a result of adding to this sum all fractional residual amounts arising from a taxpayer's immigration to or emigration from Canada or from deemed partial residence of a non-resident taxpayer. All other numbers of personal exemptions are assumed to be integers, as are numbers of \$100 standard deductions claimed. The residual amounts arise from assuming these latter numbers to be integral in our calculations.

b/ Computed as the difference between each taxpayer's gross income from business and professional proprietorships and partnerships (prorated by share of net income in the case of a partnership) and net income from these sources, less total capital cost allowances claimed by the taxpayer. Capital cost allowances deductible from other gross income have not been segregated from total capital cost allowances, and total business and professional expenses are consequently understated. If the (understated) estimate of expenses is negative for a taxpayer, it is arbitrarily revised to zero before being added into the total for the class.

c/ Includes dividends received as estate income where shown separately on 1964 tax returns filed.

d/ Includes bond and bank interest, mortgage interest, estate income and other investment income from Canadian sources.

e/ Corresponds to the entry entitled "Miscellaneous Income" in tables to be published in 1966 Taxation Statistics, Ottawa: Queen's Printer.

f/ Estimated in imputing numbers of dependants for a taxpayer. See notes to Table B-6 in J. Bossons, Analyzer, a study published by the Commission.

TABLE B-3

CALCULATION OF TAXES FOR THE AVERAGE TAXPAYER IN EXAMPLE GROUP 1

<u>Deductions</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>	<u>Income</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>
1. Pension contributions	\$ 134	\$ 134	1. Wages and salaries	\$ 5,716	\$ 5,716
2. Retirement savings	79	79	2. Employment expense deductions	(12)	(204)
3. Net medical expenses	44	43	3. Professional income	—	—
4. Charitable donations	76	59	4. Commission income	9	9
5. Standard deductions	58	32	5. Attributable benefits	—	115
6. Alimony paid	4	4	6. Farming and fishing income	(2)	(2)
7. Other deductions	<u>18</u>	<u>22</u>	7. Dividends	4	4
Total deductions	413	353	8. Other corporate income	—	13
Family exemptions	<u>2,300</u>	<u>—</u>	9. Capital gains on shares	—	4
Total deductions and family exemptions	<u>\$2,713</u>	<u>\$353</u>	10. Unincorporated business income	1	—
			11. Net rental income	(10)	(10)
			12. Other Canadian investment income	5	106
			13. Non-business capital gains	—	(9)
			14. Foreign investment income	—	—
			15. Deductions from investment income	(1)	(1)
			16. Gifts and bequests	—	31
			17. Transfer payments	—	81
			18. Alimony received	—	—
			19. Miscellaneous income	<u>15</u>	<u>15</u>
			Total income	\$5,725	\$5,868
			Less: total deductions and family exemptions	<u>2,713</u>	<u>353</u>
			Taxable income	<u>\$3,012</u>	<u>\$5,515</u>
<u>Tax Credits</u>			<u>Tax Calculation</u>		
1. Credits for dependants	\$ —	\$ 100	Personal income tax before tax credits	\$522	\$555
2. Dividend tax credits	1	—	Less: total tax credits	<u>2</u>	<u>126</u>
3. Refundable credits for corporation income tax	—	8	Personal income tax including old age security tax	\$521	\$429
4. Other tax credits	<u>1</u>	<u>18</u>	Corporation income tax	6	8
Total tax credits	\$ <u>2</u>	\$ <u>126</u>	Taxes on gifts and bequests received	—	—
			Total direct taxes	\$528	\$437

Note: Some columns do not add to totals due to rounding.

TABLE B-4

CALCULATION OF TAXES FOR THE AVERAGE TAXPAYER IN EXAMPLE GROUP 2

<u>Deductions</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>	<u>Income</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>
1. Pension contributions	\$352	\$352	1. Wages and salaries	\$11,318	\$11,318
2. Retirement savings	89	89	2. Employment expense deductions	(6)	(372)
3. Net medical expenses	2	(1)	3. Professional income	37	37
4. Charitable donations	163	141	4. Commission income	613	613
5. Standard deductions	61	34	5. Attributable benefits	—	293
6. Alimony paid	—	—	6. Farming and fishing income	—	—
7. Other deductions	<u>41</u>	<u>4</u>	7. Dividends	19	19
Total deductions	708	619	8. Other corporate income	—	71
Family exemptions	<u>1,992</u>	<u>—</u>	9. Capital gains on shares	—	19
Total deductions and family exemptions	<u>\$2,700</u>	<u>\$619</u>	10. Unincorporated business income	(1)	(3)
			11. Net rental income	1	1
			12. Other Canadian investment income	479	1,056
			13. Non-business capital gains	—	72
			14. Foreign investment income	3	3
			15. Deductions from investment income	(13)	(13)
			16. Gifts and bequests	—	1,550
			17. Transfer payments	—	—
			18. Alimony received	—	—
			19. Miscellaneous income	<u>1</u>	<u>1</u>
			Total income	\$12,450	\$14,666
			Less: total deductions and family exemptions	<u>2,700</u>	<u>619</u>
			Taxable income	<u>\$9,750</u>	<u>\$14,047</u>
<u>Tax Credits</u>			<u>Tax Calculation</u>		
1. Credits for dependants	\$—	\$—	Personal income tax before tax credits	\$2,195	\$2,398
2. Dividend tax credits	4	—	Less: total tax credits	<u>44</u>	<u>123</u>
3. Refundable credits for corporation income tax	—	45	Personal income tax including old age security tax	2,152	2,275
4. Other tax credits	<u>40</u>	<u>79</u>	Corporation income tax	33	45
Total tax credits	<u>\$44</u>	<u>\$123</u>	Taxes on gifts and bequests received	<u>207</u>	<u>—</u>
			Total direct taxes	<u>\$2,392</u>	<u>\$2,319</u>

Note: Some columns do not add to totals due to rounding.

TABLE B-5

CALCULATION OF TAXES FOR THE AVERAGE TAXPAYER IN EXAMPLE GROUP 3

<u>Deductions</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>	<u>Income</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>
1. Pension contributions	\$ 146	\$ 146	1. Wages and salaries	\$ 1,461	\$ 1,461
2. Retirement savings	1,248	1,248	2. Employment expense deductions	(11)	(70)
3. Net medical expenses	4	4	3. Professional income	27,765	27,765
4. Charitable donations	787	771	4. Commission income	1,020	1,020
5. Standard deductions	8	5	5. Attributable benefits	—	623
6. Alimony paid	—	—	6. Farming and fishing income	(149)	(149)
7. Other deductions	<u>2</u>	<u>—</u>	7. Dividends	124	124
Total deductions	\$2,195	\$2,174	8. Other corporate income	—	510
Family exemptions	<u>3,648</u>	<u>—</u>	9. Capital gains on shares	—	124
Total deductions and family exemptions	<u>\$5,843</u>	<u>\$2,174</u>	10. Unincorporated business income	1,719	1,808
			11. Net rental income	18	18
			12. Other Canadian investment income	224	932
			13. Non-business capital gains	—	51
			14. Foreign investment income	3	3
			15. Deductions from investment income	(48)	(48)
			16. Gifts and bequests	—	5,994
			17. Transfer payments	—	443
			18. Alimony received	—	—
			19. Miscellaneous income	<u>3</u>	<u>3</u>
			Total Income	\$32,129	\$40,611
			Less: total deductions and family exemptions	<u>5,843</u>	<u>2,174</u>
			Taxable income	<u>\$26,286</u>	<u>\$38,437</u>
<u>Tax Credits</u>			<u>Tax Calculation</u>		
1. Credits for dependants	\$ —	\$ 370	Personal income tax before tax credits	\$9,313	\$10,483
2. Dividend tax credits	18	—	Less: total tax credits	<u>18</u>	<u>685</u>
3. Refundable credits for corporation income tax	—	314	Personal income tax including old age security tax	\$9,295	\$ 9,798
4. Other tax credits	<u>—</u>	<u>2</u>	Corporation income tax	240	314
Total tax credits	\$ <u>18</u>	\$ <u>685</u>	Taxes on gifts and bequests received	<u>832</u>	<u>—</u>
			Total direct taxes	<u>\$10,368</u>	<u>\$10,112</u>

Note: Some columns do not add to totals due to rounding.

TABLE B-6

CALCULATION OF TAXES FOR THE AVERAGE TAXPAYER IN EXAMPLE GROUP 4

<u>Deductions</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>	<u>Income</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>
1. Pension contributions	\$ 93	\$ 93	1. Wages and salaries	\$ 6,235	\$ 6,235
2. Retirement savings	329	329	2. Employment expense deductions	—	(219)
3. Net medical expenses	—	—	3. Professional income	—	—
4. Charitable donations	750	744	4. Commission income	—	—
5. Standard deductions	17	9	5. Attributable benefits	—	125
6. Alimony paid	—	—	6. Farming and fishing income	362	362
7. Other deductions	—	—	7. Dividends	12,341	13,133
Total deductions	<u>1,189</u>	<u>1,175</u>	8. Other corporate income	—	54,038
Family exemptions	<u>3,167</u>	<u>—</u>	9. Capital gains on shares	—	13,133
Total deductions and family exemptions	<u>\$4,356</u>	<u>\$1,175</u>	10. Unincorporated business income	—	(30)
			11. Net rental income	2,177	2,177
			12. Other Canadian investment income	10,102	12,316
			13. Non-business capital gains	—	3,692
			14. Foreign investment income	108	108
			15. Deductions from investment income	(1,609)	(1,609)
			16. Gifts and bequests	—	12,726
			17. Transfer payments	—	403
			18. Alimony received	—	—
			19. Miscellaneous income	—	—
			Total income	\$29,715	\$116,589
			Less: total deductions and family exemptions	<u>4,356</u>	<u>1,175</u>
			Taxable income	<u>\$25,359</u>	<u>\$115,414</u>
<u>Tax Credits</u>					
1. Credits for dependants	\$ —	\$ 340	<u>Tax Calculation</u>		
2. Dividend tax credits	2,402	—	Personal income tax before tax credits	\$8,850	\$46,384
3. Refundable credits for corporation income tax	—	33,257	Less: total tax credits	<u>2,418</u>	<u>33,613</u>
4. Other tax credits	<u>16</u>	<u>16</u>	Personal income tax including old age security tax	\$6,432	\$12,771
Total tax credits	<u>\$2,418</u>	<u>\$33,613</u>	Corporation income tax	25,473	33,257
			Taxes on gifts and bequests received	<u>1,660</u>	<u>—</u>
			Total direct taxes	<u>\$33,565</u>	<u>\$46,028</u>

Note: Some columns do not add to totals due to rounding.

TABLE B-7

CALCULATION OF TAXES FOR THE AVERAGE TAXPAYER IN EXAMPLE GROUP 5

<u>Deductions</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>	<u>Income</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>
1. Pension contributions	\$ 674	\$ 674	1. Wages and salaries	\$52,034	\$52,034
2. Retirement savings	165	165	2. Employment expense deductions	—	(1,532)
3. Net medical expenses	4	4	3. Professional income	—	—
4. Charitable donations	577	559	4. Commission income	364	364
5. Standard deductions	39	21	5. Attributable benefits	—	1,500
6. Alimony paid	—	—	6. Farming and fishing income	—	—
7. Other deductions	—	—	7. Dividends	3,042	3,607
Total deductions	\$1,459	\$1,424	8. Other corporate income	—	14,842
Family exemptions	2,544	—	9. Capital gains on shares	—	3,607
Total deductions and family exemptions	<u>\$4,003</u>	<u>\$1,424</u>	10. Unincorporated business income	153	105
			11. Net rental income	1,219	1,219
			12. Other Canadian investment income	1,610	3,707
			13. Non-business capital gains	—	1,460
			14. Foreign investment income	8	8
			15. Deductions from investment income	(1,147)	(1,147)
			16. Gifts and bequests	—	16,197
			17. Transfer payments	—	161
			18. Alimony received	—	—
			19. Miscellaneous income	34	34
			Total income	\$57,316	\$96,167
			Less: Total deductions and family exemptions	4,003	1,424
			Taxable income	<u>\$53,315</u>	<u>\$94,743</u>
<u>Tax Credits</u>					
1. Credits for dependants	\$ —	\$ 160			
2. Dividend tax credits	619	—			
3. Refundable credits for corporation income tax	—	9,135	<u>Tax Calculations</u>		
4. Other tax credits	4	4	Personal income tax before tax credits	\$25,495	\$36,101
Total tax credits	<u>\$ 624</u>	<u>\$9,299</u>	Less: total tax credits	624	9,299
			Personal income tax including old age security tax	\$22,869	\$26,802
			Corporation income tax	6,997	9,135
			Taxes on gifts and bequests received	2,254	—
			Total direct taxes	<u>\$32,120</u>	<u>\$35,937</u>

Note: Some columns do not add to totals due to rounding.

TABLE B-8

CALCULATION OF TAXES FOR THE AVERAGE TAXPAYER IN EXAMPLE GROUP 6

<u>Deductions</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>	<u>Income</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>
1. Pension contributions	\$ 32	\$ 32	1. Wages and salaries	\$2,775	\$2,775
2. Retirement savings	55	55	2. Employment expense deductions	—	(110)
3. Net medical expenses	6	5	3. Professional income	3	3
4. Charitable donations	21	6	4. Commission income	19	19
5. Standard deductions	88	48	5. Attributable benefits	—	183
6. Alimony paid	17	17	6. Farming and fishing income	59	59
7. Other deductions	14	1	7. Dividends	4	4
Total deductions	\$ 233	\$164	8. Other corporate income	—	14
Family exemptions	1,000	—	9. Capital gains on shares	—	4
Total deductions and family exemptions	<u>\$1,233</u>	<u>\$164</u>	10. Unincorporated business income	355	372
			11. Net rental income	21	21
			12. Other Canadian investment income	23	96
			13. Non-business capital gains	—	24
			14. Foreign investment income	—	—
			15. Deductions from investment income	—	—
			16. Gifts and bequests	—	31
			17. Transfer payments	—	—
			18. Alimony received	—	—
			19. Miscellaneous income	5	5
			Total income	\$3,263	\$3,500
			Less: total deductions and family exemptions	1,233	164
			Taxable income	<u>\$2,030</u>	<u>\$3,336</u>
<u>Tax Credits</u>			<u>Tax Calculation</u>		
1. Credits for dependants	\$—	\$—	Personal income tax before tax credits	\$316	\$372
2. Dividend tax credits	1	—	Less: total tax credits	1	23
3. Refundable credits for corporation income tax	—	9	Personal income tax including old age security tax	\$316	\$350
4. Other tax credits	—	14	Corporation income tax	6	9
Total tax credits	<u>\$ 1</u>	<u>\$23</u>	Taxes on gifts and bequests received	2	—
			Total direct taxes	<u>\$324</u>	<u>\$358</u>

Note: Some columns do not add to totals due to rounding.

TABLE B-9

CALCULATION OF TAXES FOR THE AVERAGE TAXPAYER IN EXAMPLE GROUP 7

<u>Deductions</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>	<u>Income</u>	<u>Under the Current System</u>	<u>Under the Proposed System</u>
1. Pension contributions	\$ —	\$—	1. Wages and salaries	\$ 428	\$ 428
2. Retirement savings	—	—	2. Employment expense deductions	—	-5
3. Net medical expenses	4	4	3. Professional income	3	3
4. Charitable donations	10	-9	4. Commission income	1	1
5. Standard deductions	91	50	5. Attributable benefits	—	—
6. Alimony paid	—	—	6. Farming and fishing income	7	7
7. Other deductions	310	—	7. Dividends	18	18
Total deductions	<u>\$ 415</u>	<u>\$44</u>	8. Other corporate income	—	64
Family exemptions	<u>994</u>	<u>—</u>	9. Capital gains on shares	—	18
Total deductions and family exemptions	<u><u>\$1,409</u></u>	<u><u>\$44</u></u>	10. Unincorporated business income	—	—
			11. Net rental income	2	2
			12. Other Canadians investment income	384	683
			13. Non-business capital gains	—	58
			14. Foreign investment income	—	—
			15. Deductions from investment income	—	—
			16. Gifts and bequests	—	263
			17. Transfer payments	1,149	1,149
			18. Alimony received	—	—
			19. Miscellaneous income	<u>35</u>	<u>35</u>
			Total income	<u>\$2,025</u>	<u>\$2,723</u>
			Less: total deductions and family exemptions	<u>1,409</u>	<u>44</u>
			Taxable income	<u><u>\$ 615</u></u>	<u><u>\$2,679</u></u>
 <u>Tax Credits</u>					
1. Credits for dependants	\$—	\$—			
2. Dividend tax credits	—	—			
3. Refundable credit for corporation income tax	—	41			
4. Other tax credits	<u>—</u>	<u>—</u>			
Total tax credits	<u><u>\$—</u></u>	<u><u>\$ 41</u></u>			
 <u>Tax Calculation</u>					
Personal income tax before tax credits				\$ 79	\$250
Less: total tax credits				<u>—</u>	<u>41</u>
Personal income tax including old age security tax				\$ 79	\$209
Corporation income tax				30	41
Taxes on gifts and bequests received				<u>31</u>	<u>—</u>
Total direct taxes				<u><u>\$140</u></u>	<u><u>\$250</u></u>

Note: Some columns do not add to totals due to rounding.

TABLE B-10

CLASSIFICATION OF TAXPAYERS BY
ESTIMATED COMPREHENSIVE INCOME

<u>Class</u>	<u>Income</u>
1	Less than \$1,000
2	\$ 1,000 - \$ 1,999
3	2,000 - 2,999
4	3,000 - 3,999
5	4,000 - 4,999
6	5,000 - 5,999
7	6,000 - 7,999
8	8,000 - 9,999
9	10,000 - 11,999
10	12,000 - 14,999
11	15,000 - 19,999
12	20,000 - 24,999
13	25,000 - 34,999
14	35,000 - 49,999
15	50,000 - 74,999
16	75,000 - 99,999
17	100,000 - 149,999
18	150,000 - 199,999
19	200,000 - 299,999
20	300,000 or over

TABLE B-11

SUMMARY DATA FOR AVERAGE TAXPAYERS IN SEVEN EXAMPLE GROUPS
(dollars)

<u>Example</u>	<u>Income Class</u>	<u>Taxable Income</u>		<u>Personal Income Tax</u>		<u>Total Direct Taxes</u>	
		<u>Current</u>	<u>Proposed</u>	<u>Current</u>	<u>Proposed</u>	<u>Current</u>	<u>Proposed</u>
1	6	3,012.4	5,515.1	521.1	428.8	527.9	437.2
2	10	9,751.0	14,046.5	2,151.8	2,275.0	2,391.8	2,319.4
3	14	26,286.3	38,436.8	9,295.2	9,797.8	10,367.8	10,111.6
4	17	25,359.5	115,413.8	6,431.4	12,770.6	33,565.1	46,027.9
5	16	53,314.5	94,743.3	22,869.4	26,802.2	32,120.0	35,936.7
6	4	2,029.9	3,335.7	315.6	349.6	324.0	358.2
7	3	615.4	2,678.4	78.6	209.9	140.3	250.3

APPENDIX C

PRORATION OF THE EFFECTS ON TAX
REVENUES FROM RESIDENT INDIVIDUALS
OF EACH PROPOSED DIRECT TAX REFORM

The purpose of this appendix is to show the effect of each major direct tax reform that we have recommended on personal income tax revenue and on total direct tax revenues from resident individuals. The proposed reforms are listed in Table C-1. Two reforms are excluded from this analysis because of the difficulty in allocating their effects to specific taxpayers. The two excluded reforms are the definition of the tax unit on a family basis rather than on an individual basis and the allowance of income averaging.

Because of the different marginal tax rates currently applicable to different taxpayers and because of the combined effect of various proposed reforms affecting the tax base upon the top marginal tax rate faced by each taxpayer under the proposed rate schedule, it is possible to allocate a change in tax revenues among the proposed reforms bringing about that change only by adopting an arbitrary means of allocation. Some reforms would, of course, have effects which were independent of the effects of other proposed reforms. The provision of tax credits for working mothers, to take one example, would involve no change in the tax base and hence would be independent of the other proposals.

We adopted the following procedure to allocate a change in taxes among the reforms causing the change. For each taxpayer in the 1966 Taxation Statistics sample, we calculated the change which would occur in personal income tax before tax credits were taken into account and allocated this change among the proposed reforms in proportion to the change in the personal income tax base which would be affected by the reform 1/. Tax credits associated with each proposed reform were then subtracted from

the before-credit tax change allocated to each reform and associated changes in other taxes were added to the resultant change. These calculations were made for each taxpayer; by aggregating the effect of each proposal on all taxpayers we arrived at prorated estimates of the effect on tax revenues of each proposed reform, given that the other recommended reforms were also implemented.

The results of these calculations for the average taxpayer in the seven example groups presented in Appendix B to this Volume are shown in Tables C-2 and C-3; these figures are derived from the amounts shown for each group in Tables B-3 to B-9 in Appendix B. In these and subsequent tables, proposed reforms are referred to by number; descriptions pertaining to each number are provided in Table C-1. As in Appendix B, each change in the tax base is defined in accordance with the assumptions summarized in Appendix A to this Volume.

Taxpayers are classified into twenty standard income classes based on comprehensive base income. The income classification is defined in Table B-10 in Appendix B. The proration of the effects of each reform by type of tax for all residents is shown in Table C-4. Table C-5 shows the effect of each proposed reform on revenues from the personal income tax, prorated by income class. Table C-6 presents the effects of each reform on all direct taxes from resident individuals, again prorated by income class.

A summary of the data obtained for each income class is presented in Table C-7 in a form that is consistent with the data presented in Appendix B. The amounts shown in Tables C-4, C-5 and C-6 can be reconciled to this table. However, to do so it is necessary to adjust the amounts attributed to taxpayers in the tables in this appendix to reflect the credit for corporation taxes allowed to the trustees of Registered Retirement Income Plans (reform 4-1), resulting in an indirect deferment of taxes on income not allocated to taxpayers in the computations shown in Appendix B to this

Volume. This reform was excluded from the amounts shown in Appendix B because, strictly speaking, it would be attributable to retirement income not yet received rather than to any component of a taxpayer's current investment income as defined under the comprehensive tax base.

All figures shown, for example, data in Tables C-2 and C-3, are in dollars; figures shown in Tables C-4 to C-7 are in thousands of dollars. Some figures do not add to totals due to rounding.

REFERENCE

- 1/ The calculations and subsequent aggregation of the changes for all taxpayers are described in the listing of subroutine RVTAB2 contained in J. Bossons, A General Income Tax Analyzer, a study published by the Commission.

TABLE C-1

DEFINITION OF PROPOSED REFORMS BY CATEGORY

1. Changes in tax rates
 - 1.1 Lowering the rate schedule for all taxpayers to the proposed schedule for individuals.
 - 1.2 Additional reduction in the rate schedule for families.
 - 1.3 Use of a tax credit rather than an exemption to allow for the first child in each family.
 - 1.4 Use of credits rather than exemptions to allow for additional dependent children.

2. Taxation of the family as a unit
 - 2.1 Aggregation of the income of husbands and wives, assuming that income is taxed at the rates of the proposed schedule for individuals a/.
 - 2.2 Effect of taxing the aggregated income of husbands and wives under the family rate schedule a/.
 - 2.3 Aggregation of income of parents and children a/.
 - 2.4 Effect of elimination of taxes on transfers of wealth between members of a family unit.

3. Changes in the taxation of corporate source income
 - 3.1 Integration of corporation and personal income taxes.
 - 3.2 Widening the corporation tax base.
 - 3.3 Taxation of capital gains and allowance of capital losses on corporate shares.
 - 3.4 Disallowance of shareholder depletion deductions.

4. Changes in the taxation of other business and property income
 - 4.1 Deferral of taxes on the investment income of Registered Retirement Income Plans.
 - 4.2 Taxation of capital gains and allowance of capital losses of unincorporated businesses.
 - 4.3 Acceleration of capital cost allowances for unincorporated businesses.
 - 4.4 Extension of loss carry-over provisions for unincorporated businesses.
 - 4.5 Extension of reporting controls to bring unreported interest into the tax base.
 - 4.6 Attribution of life insurance policyholder investment income.
 - 4.7 Attribution of participating dividends paid by credit unions, co-operatives and mutual life insurance companies.
 - 4.8 Taxation of non-business capital gains and allowance of non-business capital losses.

5. Changes in the taxation of employment income
 - 5.1 Liberalization of the definition of deductible employment expenses.
 - 5.2 Optional standard expense allowance.
 - 5.3 Attribution of employee benefits.
 - 5.4 Working mother credit.
 - 5.5 Deductibility of unemployment insurance.

6. Other changes resulting from adoption of the comprehensive tax base
 - 6.1 Inclusion of gifts and bequests.
 - 6.2 Inclusion of family allowances and other transfer payments.

7. Changes in concessionary allowances
 - 7.1 Elimination of the old age exemption.
 - 7.2 Changed definition of medical expenses.
 - 7.3 Improvements in the control of charitable donations.
 - 7.4 Change in the standard deduction.
 - 7.5 Provision of additional educational allowances in the form of a tax credit.
 - 7.6 Allowance of credits rather than exemptions for dependants other than dependent children.

Note:

a/ The first three proposed reforms in the "taxation of the family as a unit" category have no figures listed under them in subsequent tables. They are included here as "reserved" elements of the table and are included on that basis in the RVTAB2 subroutine so that they can be shown, given subsequent allocation of the effects of the family unit definition. The basis for such allocation is described in J. Bossons, A General Income Tax Analyzer.

TABLE C-2

PRORATION OF THE EFFECTS OF THE PROPOSED REFORMS ON TAX REVENUES
FROM SEVEN EXAMPLE GROUPS: AVERAGE CHANGES IN PERSONAL INCOME TAXES IN EACH EXAMPLE GROUP
(dollars)

	Example Groups						
	1	2	3	4	5	6	7
1. Reform Category 1 – Changes in tax rates							
Reform (1, 1)	-14.	-29.	-1700.	-1579.	-4874.	-5.	-2.
Reform (1, 2)	-48.	-315.	-933.	-1031.	-1021.	0.	0.
Reform (1, 3)	-43.	0.	5.	5.	32.	0.	0.
Reform (1, 4)	0.	0.	202.	180.	72.	0.	0.
Total in Class	-106.	-344.	-2426.	-2425.	-5791.	-5.	-2.
2. Reform Category 2 – Taxation of the family as a unit							
Reform (2, 1)	0.	0.	0.	0.	0.	0.	0.
Reform (2, 2)	0.	0.	0.	0.	0.	0.	0.
Reform (2, 3)	0.	0.	0.	0.	0.	0.	0.
Reform (2, 4)	0.	0.	0.	0.	0.	0.	0.
Total in Class	0.	0.	0.	0.	0.	0.	0.
3. Reform Category 3 – Changes in taxation of corporate source income							
Reform (3, 1)	-5.	-22.	-96.	-5962.	-1502.	-5.	-27.
Reform (3, 2)	-0.	-2.	-6.	-245.	-47.	-0.	-2.
Reform (3, 3)	1.	5.	47.	5990.	1693.	1.	3.
Reform (3, 4)	0.	0.	0.	361.	265.	0.	0.
Total in Class	-4.	-19.	-55.	-144.	409.	-4.	-27.
4. Reform Category 4 – Changes in taxation of other property income							
Reform (4, 1)	0.	0.	0.	0.	0.	0.	0.
Reform (4, 2)	0.	-0.	52.	0.	6.	6.	0.
Reform (4, 3)	-0.	-0.	-18.	-14.	-28.	-2.	-0.
Reform (4, 4)	-0.	-0.	-0.	-0.	-0.	-0.	-0.
Reform (4, 5)	1.	80.	58.	456.	469.	3.	43.
Reform (4, 6)	12.	37.	135.	356.	330.	7.	4.
Reform (4, 7)	7.	21.	75.	198.	184.	4.	2.
Reform (4, 8)	-2.	17.	19.	1684.	685.	5.	9.
Total in Class	17.	154.	322.	2680.	1647.	23.	58.
5. Reform Category 5 – Changes in taxation of employment income							
Reform (5, 1)	-13.	-70.	-0.	-41.	-704.	-0.	-0.
Reform (5, 2)	-17.	-10.	-16.	-45.	-0.	-17.	-0.
Reform (5, 3)	22.	70.	237.	57.	704.	37.	0.
Reform (5, 4)	0.	0.	0.	0.	0.	0.	0.
Reform (5, 5)	-6.	-8.	-7.	-15.	-15.	-5.	-1.
Total in Class	-15.	-17.	214.	-43.	-15.	15.	-1.
6. Reform Category 6 – Other aspects of the comprehensive base							
Reform (6, 1)	6.	369.	2277.	5804.	7602.	6.	43.
Reform (6, 2)	15.	0.	168.	184.	76.	0.	0.
Total in Class	21.	369.	2445.	5988.	7678.	6.	43.
7. Reform Category 7 – Changes in concessionary allowances							
Reform (7, 1)	0.	0.	0.	0.	0.	0.	51.
Reform (7, 2)	0.	1.	0.	-0.	-0.	0.	-0.
Reform (7, 3)	3.	5.	6.	3.	8.	3.	3.
Reform (7, 4)	5.	7.	1.	3.	8.	8.	7.
Reform (7, 5)	-14.	-30.	-1.	0.	0.	-11.	0.
Reform (7, 6)	0.	0.	0.	0.	0.	0.	0.
Total in Class	-6.	-18.	6.	6.	17.	-0.	60.
Undistributed Amounts	-0.	-1.	-4.	-11.	-10.	-0.	-0.
Total Changes	-92.	123.	503.	6339.	3933.	34.	131.
Current Total	521.	2152.	9295.	6431.	22869.	316.	79.
New Total	429.	2275.	9798.	12771.	26802.	350.	210.
Percentage Change	-17.7	5.7	5.4	98.6	17.2	10.8	167.

TABLE C-3

PRORATION OF THE EFFECTS OF THE PROPOSED REFORMS ON TAX REVENUES
FROM SEVEN EXAMPLE GROUPS: AVERAGE CHANGES IN ALL DIRECT TAXES IN EACH EXAMPLE GROUP
(dollars)

	Example Groups						
	1	2	3	4	5	6	7
1. Reform Category 1 – Changes in tax rates							
Reform (1, 1)	-14.	-29.	-1700.	-1579.	-4874.	-5.	-2.
Reform (1, 2)	-48.	-315.	-933.	-1031.	-1021.	0.	0.
Reform (1, 3)	-43.	0.	5.	5.	32.	0.	0.
Reform (1, 4)	0.	0.	202.	180.	72.	0.	0.
Total in Class	-106.	-344.	-2426.	-2425.	-5791.	-5.	-2.
2. Reform Category 2 – Taxation of the family as a unit							
Reform (2, 1)	0.	0.	0.	0.	0.	0.	0.
Reform (2, 2)	0.	0.	0.	0.	0.	0.	0.
Reform (2, 3)	0.	0.	0.	0.	0.	0.	0.
Reform (2, 4)	-0.	-114.	-458.	-913.	-1240.	-1.	-17.
Total in Class	-0.	-114.	-458.	-913.	-1240.	-1.	-17.
3. Reform Category 3 – Changes in taxation of corporate source income							
Reform (3, 1)	-3.	-15.	-49.	-973.	-132.	-3.	-21.
Reform (3, 2)	0.	2.	20.	2549.	721.	0.	1.
Reform (3, 3)	1.	5.	47.	5990.	1693.	1.	3.
Reform (3, 4)	0.	0.	0.	361.	265.	0.	0.
Total in Class	-2.	-8.	18.	7928.	2547.	2.	-17.
4. Reform Category 4 – Changes in taxation of other property income							
Reform (4, 1)	-11.	-31.	-107.	-29.	-65.	-3.	0.
Reform (4, 2)	0.	-0.	52.	0.	6.	6.	0.
Reform (4, 3)	-0.	-0.	-18.	-14.	-28.	-2.	-0.
Reform (4, 4)	-0.	-0.	-0.	-0.	-0.	-0.	-0.
Reform (4, 5)	1.	80.	58.	456.	469.	3.	43.
Reform (4, 6)	12.	37.	135.	356.	330.	7.	4.
Reform (4, 7)	7.	21.	75.	198.	184.	4.	2.
Reform (4, 8)	-2.	17.	19.	1684.	685.	5.	9.
Total in Class	6.	123.	215.	2651.	1582.	20.	58.
5. Reform Category 5 – Changes in taxation of employment income							
Reform (5, 1)	-13.	-70.	-0.	-41.	-704.	-0.	-0.
Reform (5, 2)	-17.	-10.	-16.	-45.	-0.	-17.	-0.
Reform (5, 3)	22.	70.	237.	57.	704.	37.	0.
Reform (5, 4)	0.	0.	0.	0.	0.	0.	0.
Reform (5, 5)	-6.	-8.	-7.	-15.	-15.	-5.	-1.
Total in Class	-15.	-17.	214.	-43.	-15.	15.	-1.
6. Reform Category 6 – Other aspects of the comprehensive base							
Reform (6, 1)	6.	276.	1902.	5057.	6588.	5.	29.
Reform (6, 2)	15.	0.	168.	184.	76.	0.	0.
Total in Class	21.	276.	2071.	5241.	6663.	5.	29.
7. Reform Category 7 – Changes in concessionary allowances							
Reform (7, 1)	0.	0.	0.	0.	0.	0.	51.
Reform (7, 2)	0.	1.	0.	-0.	-0.	0.	-0.
Reform (7, 3)	3.	5.	6.	3.	8.	3.	3.
Reform (7, 4)	5.	7.	1.	3.	8.	8.	7.
Reform (7, 5)	-14.	-30.	-1.	0.	0.	-11.	0.
Reform (7, 6)	0.	0.	0.	0.	0.	0.	0.
Total in Class	-6.	-18.	6.	6.	17.	-0.	60.
Undistributed Amounts	-0.	-1.	-4.	-11.	-10.	-0.	-0.
Total Changes	-102.	-103.	-363.	12434.	3752.	32.	110.
Current Total	528.	2392.	10368.	33565.	32120.	324.	140.
New Total	426.	2289.	10005.	45999.	35872.	356.	250.
Percentage Change	-19.3	-4.3	3.5	37.0	11.7	9.7	78.4

TABLE C-4

PRORATION OF THE EFFECTS OF THE PROPOSED REFORMS ON TAX REVENUES
FROM ALL RESIDENTS: TOTAL CHANGES IN THE TAX BASES AND TAXES
(thousands of dollars)

REFORM	Personal Income Tax		Corporation Income Tax		Gift Tax
	Base	Tax	Base	Tax	
1. Reform Category 1 – Changes in tax rates					
Reform (1, 1)	6662961.	-113326.	0.	0.	0.
Reform (1, 2)	2649456.	-203521.	0.	0.	0.
Reform (1, 3)	896900.	-72211.	0.	0.	0.
Reform (1, 4)	1197355.	14464.	0.	0.	0.
Total in Class	11406672.	-374594.	0.	0.	0.
2. Reform Category 2 – Taxation of the family as a unit					
Reform (2, 1)	0.	0.	0.	0.	0.
Reform (2, 2)	0.	0.	0.	0.	0.
Reform (2, 3)	0.	0.	0.	0.	0.
Reform (2, 4)	0.	0.	0.	0.	-78653.
Total in Class	0.	0.	0.	0.	-78653.
3. Reform Category 3 – Changes in Taxation of corporate source income					
Reform (3, 1)	1533660.	-363433.	0.	170984.	0.
Reform (3, 2)	179979.	-27243.	179983.	89991.	0.
Reform (3, 3)	450656.	155189.	0.	0.	0.
Reform (3, 4)	4317.	1998.	0.	0.	0.
Total in Class	2188612.	-233489.	179983.	260975.	0.
4. Reform Category 4 – Changes in taxation of other property income					
Reform (4, 1)	0.	0.	0.	-45017.	0.
Reform (4, 2)	95016.	18987.	0.	0.	0.
Reform (4, 3)	-49177.	-7666.	0.	0.	0.
Reform (4, 4)	-6567.	-876.	0.	0.	0.
Reform (4, 5)	376613.	83876.	0.	0.	0.
Reform (4, 6)	312376.	63497.	0.	0.	0.
Reform (4, 7)	174349.	35440.	0.	0.	0.
Reform (4, 8)	249814.	68914.	0.	0.	0.
Total in Class	1152423.	262172.	0.	-45017.	0.
5. Reform Category 5 – Changes in taxation of employment income					
Reform (5, 1)	-197848.	-46130.	0.	0.	0.
Reform (5, 2)	-423827.	-71019.	0.	0.	0.
Reform (5, 3)	673610.	131705.	0.	0.	0.
Reform (5, 4)	0.	-41832.	0.	0.	0.
Reform (5, 5)	-150085.	-25384.	0.	0.	0.
Total in Class	-98150.	-52660.	0.	0.	0.
6. Reform Category 6 – Other aspects of comprehensive base					
Reform (6, 1)	1199740.	353483.	0.	0.	-64352.
Reform (6, 2)	471254.	67998.	0.	0.	0.
Total in Class	1670994.	421482.	0.	0.	-64352.
7. Reform Category 7 – Changes in concessionary allowances					
Reform (7, 1)	141610.	23614.	0.	0.	0.
Reform (7, 2)	7356.	1298.	0.	0.	0.
Reform (7, 3)	126975.	14419.	0.	0.	0.
Reform (7, 4)	228286.	30470.	0.	0.	0.
Reform (7, 5)	110336.	-71935.	0.	0.	0.
Reform (7, 6)	239318.	3106.	0.	0.	0.
Total in Class	853881.	971.	0.	0.	0.
Undistributed Amounts	0.	-192.	0.	0.	0.
Total Changes	17154431.	23689.	179983.	215958.	-143006.
Current Total	13226005.	2676014.	1961812.	809923.	143006.
New Total	30380436.	2699702.	2141795.	1025880.	0.
Percentage Change	129.7	0.9	9.2	26.7	-100.0

Note: Taxpayers are not aggregated into family units.
All base changes are prorated together.

TABLE C-5

PRORATION OF THE EFFECTS OF THE PROPOSED REFORMS ON TAX REVENUES
FROM ALL RESIDENTS: CHANGES IN PERSONAL INCOME TAXES BY INCOME CLASS
(thousands of dollars)

REFORM	Income Classes									
	1	2	3	4	5	6	7	8	9	10
1. Reform Category 1 – Changes in Tax Rates										
Reform (1, 1)	-701.	-2440.	-40.	-3879.	-5318.	-1773.	4778.	5902.	2062.	749.
Reform (1, 2)	-44.	-485.	-3586.	-10672.	-20714.	-23468.	-38795.	-21926.	-11118.	-14100.
Reform (1, 3)	1.	-517.	-2962.	-11508.	-19066.	-16214.	-15097.	-4557.	-1269.	-1131.
Reform (1, 4)	0.	0.	20.	36.	-804.	1096.	3798.	2209.	971.	1375.
Total in Class	-744.	-3441.	-6568.	-26022.	-45902.	-40359.	-45317.	-18372.	-9354.	-13108.
2. Reform Category 2 – Taxation of the family as unit										
Reform (2, 1)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 2)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 3)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 4)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Total in Class	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
3. Reform Category 3 – Changes in taxation of corporate source income										
Reform (3, 1)	-3202.	-5028.	-10733.	-12169.	-17806.	-17641.	-27514.	-24660.	-18900.	-25462.
Reform (3, 2)	-294.	-451.	-945.	-1082.	-1572.	-1554.	-2432.	-2174.	-1662.	-2213.
Reform (3, 3)	0.	288.	941.	1401.	2451.	2723.	4685.	4610.	3769.	5828.
Reform (3, 4)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Total in Class	-3496.	-5190.	-10736.	-11849.	-16926.	-16472.	-25260.	-22224.	-16793.	-21846.
4. Reform Category 4 – Changes in taxation of other property income										
Reform (4, 1)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (4, 2)	0.	198.	579.	993.	1686.	1674.	2701.	1901.	1473.	1486.
Reform (4, 3)	-0.	-141.	-325.	-567.	-873.	-792.	-1103.	-683.	-414.	-510.
Reform (4, 4)	-0.	-17.	-37.	-46.	-50.	-59.	-92.	-39.	-51.	-68.
Reform (4, 5)	0.	997.	3680.	5173.	7184.	7572.	11159.	7427.	4849.	5867.
Reform (4, 6)	0.	1415.	3710.	6168.	8762.	8410.	10054.	4711.	2132.	2631.
Reform (4, 7)	0.	790.	2070.	3443.	4890.	4694.	5612.	2629.	1190.	1468.
Reform (4, 8)	0.	421.	1560.	1919.	3044.	3312.	5488.	4224.	3025.	3866.
Total in Class	0.	3663.	11237.	17083.	24643.	24810.	33818.	20171.	12203.	14741.
5. Reform Category 5 – Changes in taxation of employment income										
Reform (5, 1)	-0.	-0.	-0.	-14.	-2814.	-6815.	-11858.	-6483.	-2570.	-3322.
Reform (5, 2)	-0.	-3478.	-8594.	-14433.	-17171.	-12096.	-9833.	-2693.	-825.	-662.
Reform (5, 3)	0.	679.	4749.	12520.	18666.	18035.	22823.	11599.	6431.	7289.
Reform (5, 4)	0.	-8465.	-14227.	-11053.	-4875.	-1631.	-1003.	-230.	-109.	-102.
Reform (5, 5)	-0.	-1312.	-3009.	-4509.	-5214.	-4119.	-3900.	-1338.	-459.	-469.
Total in Class	-0.	-12576.	-21081.	-17488.	-11407.	-6625.	-3772.	855.	2468.	2733.
6. Reform Category 6 – Other aspects of comprehensive base										
Reform (6, 1)	0.	1577.	5177.	7718.	10771.	10998.	17885.	14743.	15113.	25198.
Reform (6, 2)	0.	39.	784.	4340.	13543.	15449.	17399.	6361.	2171.	2414.
Total in Class	0.	1616.	5961.	12058.	24315.	26447.	35283.	21104.	17284.	27613.
7. Reform Category 7 – Changes in concessionary allowances										
Reform (7, 1)	0.	905.	3858.	3618.	3606.	2723.	2617.	1350.	840.	861.
Reform (7, 2)	0.	99.	96.	108.	141.	162.	265.	125.	41.	54.
Reform (7, 3)	0.	1492.	2225.	2441.	2575.	1932.	1801.	669.	257.	281.
Reform (7, 4)	0.	3399.	5141.	5642.	5643.	4180.	3671.	1202.	448.	396.
Reform (7, 5)	0.	-6600.	-7198.	-7360.	-9268.	-9980.	-16070.	-7032.	-2116.	-2225.
Reform (7, 6)	0.	-13.	-22.	-530.	-298.	282.	806.	469.	225.	358.
Total in Class	0.	-718.	4098.	3920.	2399.	-701.	-6909.	-3217.	-306.	-275.
Undistributed Amounts	-79.	-11.	-20.	-14.	-3.	-3.	-53.	-5.	-4.	-1.
Total Changes	-4319.	-16657.	-17110.	-22313.	-22882.	-12903.	-12210.	-1688.	5499.	9857.
Current Total	823.	31017.	128520.	234264.	325685.	331869.	434749.	222252.	100600.	126257.
New Total	-3496.	14360.	111411.	211952.	302803.	318965.	422539.	220564.	106099.	136114.
Percentage Change	-524.9	-53.7	-13.3	-9.5	-7.0	-3.9	-2.8	-0.8	5.5	7.8

TABLE C-5 (Continued)

REFORM	Income Classes									
	11	12	13	14	15	16	17	18	19	20
1. Reform Category 1 – Changes in tax rates										
Reform (1, 1)	-4078.	-7146.	-17160.	-19213.	-18471.	-11069.	-11511.	-5918.	-6155.	-11945.
Reform (1, 2)	-16802.	-9903.	-13520.	-9451.	-5077.	-1911.	-1162.	-403.	-212.	-172.
Reform (1, 3)	-625.	-97.	117.	245.	221.	113.	69.	32.	19.	13.
Reform (1, 4)	1469.	982.	1251.	938.	614.	232.	177.	47.	32.	21.
Total in Class	-20036.	-16163.	-29312.	-27481.	-22714.	-12635.	-12427.	-6242.	-6316.	-12083.
2. Reform Category 2 – Taxation of the family as a unit										
Reform (2, 1)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 2)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 3)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 4)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Total in Class	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
3. Reform Category 3 – Changes in taxation of corporate source income										
Reform (3, 1)	-34330.	-22942.	-32712.	-34490.	-28512.	-10943.	-12575.	-6051.	-6130.	-11634.
Reform (3, 2)	-2916.	-1908.	-2582.	-2494.	-1796.	-549.	-451.	-113.	-48.	-5.
Reform (3, 3)	8984.	7042.	12394.	16992.	18882.	9720.	14436.	8735.	10109.	21198.
Reform (3, 4)	0.	13.	42.	64.	209.	197.	342.	269.	253.	608.
Total in Class	-28263.	-17795.	-22859.	-19928.	-11217.	-1575.	1751.	2840.	4184.	10167.
4. Reform Category 4 – Changes in taxation of other property income										
Reform (4, 1)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (4, 2)	2069.	1146.	1274.	706.	407.	185.	283.	85.	92.	50.
Reform (4, 3)	-574.	-344.	-418.	-327.	-237.	-111.	-124.	-51.	-32.	-40.
Reform (4, 4)	-62.	-45.	-48.	-56.	-68.	-34.	-25.	-55.	-12.	-13.
Reform (4, 5)	6856.	4259.	5682.	5100.	3908.	1554.	1386.	521.	400.	302.
Reform (4, 6)	2854.	1739.	2466.	2278.	1976.	1034.	1135.	583.	573.	867.
Reform (4, 7)	1593.	971.	1376.	1271.	1103.	577.	633.	325.	320.	484.
Reform (4, 8)	5517.	3628.	5914.	6065.	6339.	3455.	4491.	2301.	1956.	2387.
Total in Class	18252.	11353.	16247.	15037.	13429.	6660.	7780.	3710.	3299.	4036.
5. Reform Category 5 – Changes in taxation of employment income										
Reform (5, 1)	-3164.	-1692.	-2094.	-1989.	-1643.	-690.	-540.	-193.	-142.	-108.
Reform (5, 2)	-398.	-192.	-232.	-183.	-122.	-46.	-38.	-11.	-7.	-7.
Reform (5, 3)	8720.	4788.	5863.	4223.	2769.	1145.	820.	262.	193.	130.
Reform (5, 4)	-56.	-28.	-26.	-11.	-9.	-3.	-2.	-0.	-1.	0.
Reform (5, 5)	-365.	-177.	-195.	-142.	-91.	-34.	-29.	-10.	-7.	-5.
Total in Class	4738.	2699.	3317.	1897.	904.	372.	211.	48.	37.	10.
6. Reform Category 6 – Other aspects of comprehensive base										
Reform (6, 1)	30206.	19527.	30454.	37351.	33609.	21279.	24278.	12877.	13679.	21042.
Reform (6, 2)	2007.	971.	1147.	703.	386.	143.	90.	25.	15.	11.
Total in Class	32214.	20497.	31601.	38054.	33995.	21422.	24368.	12902.	13694.	21053.
7. Reform Category 7 – Changes in concessionary allowances										
Reform (7, 1)	910.	486.	531.	482.	363.	136.	159.	63.	56.	50.
Reform (7, 2)	36.	36.	38.	27.	35.	9.	8.	12.	3.	3.
Reform (7, 3)	251.	124.	138.	101.	66.	25.	22.	9.	7.	5.
Reform (7, 4)	324.	138.	127.	82.	46.	14.	11.	3.	2.	1.
Reform (7, 5)	-1391.	-1114.	-719.	-514.	-268.	-71.	-38.	34.	-12.	6.
Reform (7, 6)	406.	270.	402.	326.	226.	87.	66.	24.	14.	8.
Total in Class	537.	-59.	516.	504.	468.	199.	227.	144.	69.	74.
Undistributed Amounts	-0.	-0.	-0.	-0.	-0.	-0.	-0.	-0.	-0.	-0.
Total Changes	7443.	533.	-490.	8083.	14865.	14443.	21910.	13402.	14968.	23258.
Current Total	138895.	86455.	125079.	110423.	91665.	50834.	49692.	24307.	24125.	38503.
New Total	146338.	86987.	124589.	118507.	106530.	65277.	71602.	37710.	39093.	61760.
Percentage Change	5.4	0.6	-0.4	7.3	16.2	28.4	44.1	55.1	62.0	60.4

Note: Taxpayers are not aggregated into family units.
All base changes are prorated together.

TABLE C-6

PRORATION OF THE EFFECTS OF THE PROPOSED REFORMS ON TAX REVENUES
FROM ALL RESIDENTS: CHANGES IN ALL DIRECT TAXES BY INCOME CLASS
(thousands of dollars)

REFORM	Income Classes									
	1	2	3	4	5	6	7	8	9	10
1. Reform Category 1 - Changes in Tax Rates										
Reform (1, 1)	-701.	-2440.	-40.	-3879.	-5318.	-1773.	4778.	5902.	2062.	749.
Reform (1, 2)	-44.	-485.	-3586.	-10672.	-20714.	-23468.	-38795.	-21926.	-11118.	-14100.
Reform (1, 3)	1.	-517.	-2962.	-11508.	-19066.	-16214.	-15097.	-4557.	-1269.	-1131.
Reform (1, 4)	0.	0.	20.	36.	-804.	1096.	3798.	2209.	971.	1375.
Total in Class	-744.	-3441.	-6568.	-26022.	-45902.	-40359.	-45317.	-18372.	-9354.	-13108.
2. Reform Category 2 - Taxation of the family as a unit										
Reform (2, 1)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 2)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 3)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 4)	-287.	-780.	-1956.	-2136.	-2599.	-2548.	-4570.	-4183.	-4655.	-7503.
Total in Class	-287.	-780.	-1956.	-2136.	-2599.	-2548.	-4570.	-4183.	-4655.	-7503.
3. Reform Category 3 - Changes in taxation of corporate source income										
Reform (3, 1)	-2625.	-3923.	-8161.	-8979.	-12855.	-12519.	-19178.	-16888.	-12773.	-16690.
Reform (3, 2)	0.	111.	363.	540.	945.	1050.	1806.	1778.	1453.	2247.
Reform (3, 3)	0.	288.	941.	1401.	2451.	2723.	4685.	4610.	3769.	5828.
Reform (3, 4)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Total in Class	-2625.	-3524.	-6857.	-7037.	-9459.	-8746.	-12687.	-10500.	-7551.	-8614.
4. Reform Category 4 - Changes in taxation of other property income										
Reform (4, 1)	-77.	-459.	-1694.	-4361.	-7642.	-7312.	-8889.	-4172.	-1653.	-2050.
Reform (4, 2)	0.	198.	579.	993.	1686.	1674.	2701.	1901.	1473.	1486.
Reform (4, 3)	0.	-141.	-325.	-567.	-873.	-792.	-1103.	-683.	-414.	-510.
Reform (4, 4)	0.	-17.	-37.	-46.	-50.	-59.	-92.	-39.	-51.	-68.
Reform (4, 5)	0.	997.	3680.	5173.	7184.	7572.	11159.	7427.	4849.	5867.
Reform (4, 6)	0.	1415.	3710.	6168.	8762.	8410.	10054.	4711.	2132.	2631.
Reform (4, 7)	0.	790.	2070.	3443.	4890.	4694.	5612.	2629.	1190.	1468.
Reform (4, 8)	0.	421.	1560.	1919.	3044.	3312.	5488.	4224.	3025.	3866.
Total in Class	-77.	3204.	9543.	12722.	17001.	17499.	24929.	15998.	10550.	12691.
5. Reform Category 5 - Changes in taxation of employment income										
Reform (5, 1)	0.	0.	0.	-14.	-2814.	-6815.	-11858.	-6483.	-2570.	-3322.
Reform (5, 2)	0.	-3478.	-8594.	-14433.	-17171.	-12096.	-9833.	-2693.	-825.	-662.
Reform (5, 3)	0.	679.	4749.	12520.	18666.	18035.	22823.	11599.	6431.	7289.
Reform (5, 4)	0.	-8465.	-14227.	-11053.	-4875.	-1631.	-1003.	-230.	-109.	-102.
Reform (5, 5)	0.	-1312.	-3009.	-4509.	-5214.	-4119.	-3900.	-1338.	-459.	-469.
Total in Class	0.	-12576.	-21081.	-17488.	-11407.	-6625.	-3772.	855.	2468.	2733.
6. Reform Category 6 - Other aspects of comprehensive base										
Reform (6, 1)	-235.	939.	3576.	5970.	8645.	8913.	14145.	11321.	11304.	19059.
Reform (6, 2)	0.	39.	784.	4340.	13543.	15449.	17399.	6361.	2171.	2414.
Total in Class	-235.	978.	4361.	10310.	22188.	24362.	31544.	17682.	13475.	21473.
7. Reform Category 7 - Changes in concessionary allowances										
Reform (7, 1)	0.	905.	3858.	3618.	3606.	2723.	2617.	1350.	840.	861.
Reform (7, 2)	0.	99.	96.	108.	141.	162.	265.	125.	41.	54.
Reform (7, 3)	0.	1492.	2223.	2441.	2575.	1932.	1801.	669.	257.	281.
Reform (7, 4)	0.	3399.	5141.	5642.	5643.	4180.	3671.	1202.	448.	396.
Reform (7, 5)	0.	-6600.	-7198.	-7360.	-9268.	-9980.	-16070.	-7032.	-2116.	-2225.
Reform (7, 6)	0.	-13.	-22.	-530.	-298.	282.	806.	469.	225.	358.
Total in Class	0.	-718.	4098.	3920.	2399.	-701.	-6909.	-3217.	-306.	-275.
Undistributed amounts	-79.	-11.	-20.	-14.	-3.	-3.	-53.	-5.	-4.	-1.
Total Changes	-4045.	-16868.	-18481.	-25746.	-27782.	-17122.	-16835.	-1742.	4625.	7397.
Current Total	3969.	37453.	143759.	252640.	352896.	359768.	480921.	265161.	136896.	179745.
New Total	-77.	20586.	125278.	226894.	325114.	342646.	464086.	263420.	141521.	187142.
Percentage Change	-101.9	-45.0	-12.9	-10.2	-7.9	-4.8	-3.5	-0.7	3.4	4.1

TABLE C-6 (Continued)

REFORM	Income Classes									
	11	12	13	14	15	16	17	18	19	20
1. Reform Category 1 – Changes in tax rates										
Reform (1, 1)	-4078.	-7146.	-17160.	-19213.	-18471.	-11069.	-11511.	-5918.	-6155.	-11945.
Reform (1, 2)	-16802.	-9903.	-13520.	-9451.	-5077.	-1911.	-1162.	-403.	-212.	-172.
Reform (1, 3)	-625.	-97.	117.	245.	221.	113.	69.	32.	19.	13.
Reform (1, 4)	1469.	982.	1251.	938.	614.	232.	177.	47.	32.	21.
Total in Class	-20036.	-16163.	-29312.	-27481.	-22714.	-12635.	-12427.	-6242.	-6316.	-12083.
2. Reform Category 2 – Taxation of the family as a unit										
Reform (2, 1)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 2)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 3)	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.
Reform (2, 4)	-8235.	-4820.	-6715.	-7347.	-5952.	-3509.	-3791.	-1939.	-2036.	-3090.
Total in Class	-8235.	-4820.	-6715.	-7347.	-5952.	-3509.	-3791.	-1939.	-2036.	-3090.
3. Reform Category 3 – Changes in taxation of corporate source income										
Reform (3, 1)	-21782.	-13849.	-18242.	-16807.	-10737.	-2549.	-800.	788.	1637.	4481.
Reform (3, 2)	3464.	2715.	4788.	6745.	7527.	4037.	6136.	3718.	4302.	9022.
Reform (3, 3)	8984.	7042.	12394.	16992.	18882.	9720.	14436.	8735.	10109.	21198.
Reform (3, 4)	0.	13.	42.	64.	209.	197.	342.	269.	253.	608.
Total in Class	-9334.	-4078.	-1018.	6994.	15881.	11405.	20113.	13509.	16302.	35309.
4. Reform Category 4 – Changes in taxation of other property income										
Reform (4, 1)	-1990.	-1096.	-1429.	-1043.	-620.	-258.	-163.	-50.	-36.	-23.
Reform (4, 2)	2069.	1146.	1274.	706.	407.	185.	283.	85.	92.	50.
Reform (4, 3)	-574.	-344.	-418.	-327.	-237.	-111.	-124.	-51.	-32.	-40.
Reform (4, 4)	-62.	-45.	-48.	-56.	-68.	-34.	-25.	-55.	-12.	-13.
Reform (4, 5)	6856.	4259.	5682.	5100.	3908.	1554.	1386.	521.	400.	302.
Reform (4, 6)	2854.	1739.	2466.	2278.	1976.	1034.	1135.	583.	573.	867.
Reform (4, 7)	1593.	971.	1376.	1271.	1103.	577.	633.	325.	320.	484.
Reform (4, 8)	5517.	3628.	5914.	6065.	6339.	3455.	4491.	2301.	1956.	2387.
Total in Class	16263.	10257.	14818.	13994.	12808.	6402.	7617.	3659.	3263.	4013.
5. Reform Category 5 – Changes in taxation of employment income										
Reform (5, 1)	-3164.	-1692.	-2094.	-1989.	-1643.	-690.	-540.	-193.	-142.	-108.
Reform (5, 2)	-398.	-192.	-232.	-183.	-122.	-46.	-38.	-11.	-7.	-7.
Reform (5, 3)	8720.	4788.	5863.	4223.	2769.	1145.	820.	262.	193.	130.
Reform (5, 4)	-56.	-28.	-26.	-11.	-9.	-3.	-2.	-0.	-1.	0.
Reform (5, 5)	-365.	-177.	-195.	-142.	-91.	-34.	-29.	-10.	-7.	-5.
Total in Class	4738.	2699.	3317.	1897.	904.	372.	211.	48.	37.	10.
6. Reform Category 6 – Other aspects of comprehensive base										
Reform (6, 1)	23468.	15583.	24960.	31340.	28739.	18408.	21177.	11291.	12013.	18514.
Reform (6, 2)	2007.	971.	1147.	703.	386.	143.	90.	25.	15.	11.
Total in Class	25476.	16553.	26107.	32043.	29125.	18552.	21267.	11316.	12028.	18525.
7. Reform Category 7 – Changes in concessionary allowances										
Reform (7, 1)	910.	486.	531.	482.	363.	136.	159.	63.	56.	50.
Reform (7, 2)	36.	36.	38.	27.	35.	9.	8.	12.	3.	3.
Reform (7, 3)	251.	124.	138.	101.	66.	25.	22.	9.	7.	5.
Reform (7, 4)	324.	138.	127.	82.	46.	14.	11.	3.	2.	1.
Reform (7, 5)	-1391.	-1114.	-719.	-514.	-268.	-71.	-38.	34.	-12.	6.
Reform (7, 6)	406.	270.	402.	326.	226.	87.	66.	24.	14.	8.
Total in Class	537.	-59.	516.	504.	468.	199.	227.	144.	69.	74.
Undistributed Amounts	-0.	-0.	-0.	-0.	-0.	-0.	-0.	-0.	-0.	-0.
Total Changes	9408.	4389.	7713.	20605.	30520.	20786.	33217.	20496.	23347.	42759.
Current Total	210868.	136525.	203151.	206802.	186333.	98815.	116608.	62749.	67482.	126401.
New Total	220277.	140914.	210864.	227407.	216853.	119601.	149825.	83245.	90829.	169159.
Percentage Change	4.5	3.2	3.8	10.0	16.4	21.0	28.5	32.7	34.6	33.8

Note: Taxpayers are not aggregated into family units.
All base changes are prorated together.

TABLE C-7

SUMMARY OF TAX CHANGES FOR
ALL RESIDENTS
(thousands of dollars where applicable)

Income Class	Number of Data Records	Number of Tax Units	Taxable Income		Personal Income Tax		Total Direct Taxes	
			Current	Proposed	Current	Proposed	Current	Proposed
1	943	698227	-498944.2	316291.9	822.9	-3496.1	3968.9	0.0
2	1585	919539	76390.6	1337346.6	31016.9	14359.9	37453.2	21044.3
3	1568	1076928	817831.6	2630959.7	128520.3	111410.7	143759.2	126971.7
4	1495	1072471	1480668.0	3665745.4	234264.4	211951.6	252639.7	231254.7
5	1289	1001470	2001519.9	4402158.3	325685.1	302802.8	352896.2	332756.1
6	1108	722461	1962972.2	3891326.6	331868.6	318965.2	359767.7	349957.4
7	1699	662694	2462135.3	4482963.3	434749.1	422539.4	480921.2	472975.6
8	1277	231123	1198023.8	2048241.2	222251.9	220564.2	265161.2	267591.9
9	819	85601	527046.4	948145.9	100600.2	106099.2	136895.9	143174.1
10	1212	83529	627643.8	1124549.0	126257.2	136144.1	179745.1	189191.9
11	1403	67292	634222.2	1157775.5	138895.1	146337.7	210868.1	222266.0
12	808	29406	354078.3	654538.2	86454.6	86987.4	136524.9	142010.4
13	924	29842	456161.7	861416.1	125079.3	124589.0	203151.0	212292.8
14	1014	18663	367940.5	780090.8	110423.4	118506.6	206801.5	228449.4
15	813	10790	280682.9	646438.1	91664.6	106530.0	186332.7	217473.3
16	366	3710	137389.4	319567.5	50833.7	65276.6	98814.7	119858.7
17	431	3113	133796.2	367399.2	49691.8	71602.1	116608.1	149987.8
18	213	1119	62362.6	191477.8	24307.3	37709.6	62749.2	83295.3
19	164	834	59354.6	200245.5	24124.8	39092.6	67482.2	90865.5
20	239	633	84730.5	354279.7	38502.5	61760.1	126400.7	169182.6
Total	19370	6719445	13226005.4	30380954.3	2676013.5	2699702.3	3628940.7	3770599.3

Note: Multiple taxpayers in a single family unit have not been aggregated.

APPENDIX D

DERIVATION OF THE 1964 SALES TAX BASE UNDER OUR PROPOSALS

This appendix presents in Table D-1 an estimate of the base that would be taxed under the federal retail sales tax recommended in Chapters 28 and 29. The retail sales and service trade figures shown in Tables D-2 and D-3 have been taken from 1961 census data provided by the Dominion Bureau of Statistics (DBS) and have been projected on the basis of growth in personal expenditure over the 1961-64 period as reported by DBS in National Accounts, Income and Expenditure. Other sources are provided in the notes to the tables.

Because of the lack of data we had to estimate the amount of taxable goods imported directly by users and by the purchasers for federal and municipal governments other than through retail stores. We believe this estimate to be conservative. We assume that few government purchases are reflected in the retail trade statistics compiled by DBS. No estimate has been included of provincial purchases since it is assumed that if our recommendation to tax these purchases were accepted, this change would be accompanied by a corresponding reimbursement to the provinces. Existing federal sales and excise tax collections have been eliminated in arriving at the proposed tax base presented in Table D-1.

A substantial amount of goods subject to a retail sales tax do not pass through the retail trade, so that it is difficult to estimate the sales tax base from retail trade statistics alone. Because the available statistics on sales by wholesalers, manufacturers and importers are insufficiently detailed regarding types of purchases and purposes of purchases to permit detailed estimation of the volume of purchases for consumption, we felt it necessary to check our estimate of the sales tax base by comparing it to an estimate based on sales tax revenue yields experienced by the Province of Ontario. The Ontario retail sales tax has a base that is marginally smaller than that recommended for the federal

retail sales tax. Table D-4 reconciles the estimated base given in Table D-1 with the actual Ontario yield in 1964-65. Since better international and interprovincial border enforcement would be available for a federal tax, the 1964-65 Ontario yield has been regarded as equal to what would have been produced in 1964 with additional enforcement. As Table D-4 indicates, there is only a minor discrepancy between an estimate based on the Ontario figures and the direct estimate presented in Table D-1.

TABLE D-1

ESTIMATE OF PROPOSED FEDERAL RETAIL SALES TAX BASE FOR 1964
(millions of dollars)

Taxable retail sales - as set out in Table D-2	12,800
Taxable sales by wholesalers and manufacturers	
Estimate of taxable commercial, professional, construction, transportation and sundry equipment and supplies a/	710
Building materials b/	4,170
Taxable imports by consumers c/	125
Taxable government purchases d/	
Federal	525
Municipal	<u>100</u>
Total sales of taxable goods	<u>18,430</u>
Less: federal sales and excise tax collections e/	<u>1,400</u>
Proposed retail sales tax base - goods	17,030
Taxable services - as set out in Table D-3	<u>4,000</u>
Proposed retail sales tax base	<u><u>21,030</u></u>

Notes:

- a/ Because of the lack of data it was necessary to make a very general estimate of the taxable goods purchased other than through retail establishments. Direct sales to users by manufacturers of construction equipment is a large component of these figures. Most purchases for their own use by business firms do not occur at the retail level and thus fall in this category.
- b/ Dominion Bureau of Statistics, Construction in Canada 1963-65, Table 7, Catalogue 64-201, Ottawa: Queen's Printer.
- c/ Because of the lack of data it was necessary to make a very general estimate of the taxable goods imported directly by users. This item would include imports for use by business firms of taxable commercial, transportation and construction equipment and goods imported by returning tourists.
- d/ The estimate of federal government purchases of taxable goods other than through retail stores has been taken from the following items listed in the public accounts: budgeted expenditure for standard objects, office stationery supplies, equipment and furnishings, materials and supplies, equipment acquisitions and rentals.
- e/ This figure includes the sales tax on production machinery, confections, soft drinks, drugs and other items excluded from the proposed base. Excluded is the excise tax on tobacco and wine which we recommend should be retained.

TABLE D-2

ESTIMATE OF TAXABLE RETAIL SALES DRAWN FROM 1961 CENSUS
OF MERCHANDISING AND PROJECTED TO 1964 USING
RATIOS OF GROWTH IN PERSONAL EXPENDITURE a/
(millions of dollars)

Retail trade category	Census <u>1961</u>	Proposed Tax Base <u>1961</u>	Proposed Tax Base <u>1964</u>
Food products	4,198	—	—
Automotive group <u>b/</u>	4,122	3,465	4,340
Clothing, footwear and dry goods	2,405	2,405	2,800
Hardware and paints	352	352	460
Furniture and appliances, etc.	961	961	1,255
Household furnishings and supplies	491	491	575
Drugs and sundries - prescribed	126	—	—
- non-prescribed	333	333	385
Fuels	361	—	—
Flowers	58	58	65
Luggage and leather goods	24	24	28
Tobacco products	297	297	345
Newspapers, magazines and books	87	—	—
Other paper products	121	121	140
Photography equipment	65	65	85
Jewellery	168	168	220
Sporting goods	147	147	190
Alcoholic beverages	897	897	1,045
Toys and games	54	54	63
Farm machinery	77	—	—
Office and store equipment	6	6	7
Heating and plumbing supplies	32	32	42
Building materials <u>c/</u>	21	—	—
Miscellaneous merchandise	580	580	755
Meals and lunches	70	—	—
Repairs and services <u>d/</u>	<u>543</u>	<u>—</u>	<u>—</u>
Total retail sales	<u>16,598</u>	<u>10,094</u>	<u>12,800</u>

Notes:

- a/ Census data are obtained from unpublished preliminary data for estimated sales in 1961 by retail establishments, classified by commodity classes and by kind of business, both for Canada and the provinces. These data were supplied to us by the Dominion Bureau of Statistics. Growth in components of personal consumption expenditure was obtained from National Accounts, Income and Expenditures, 1964, Ottawa: Queen's Printer.
- b/ The census data for the automotive group have been reduced by \$440 million to cover provincial gasoline and motor fuel tax collections in 1961. Actual collections in the fiscal year ended March 31, 1962 were \$449.1 million. The automotive group figure has also been reduced by \$317 million to allow for trade-in allowances.
- c/ Building materials have been omitted from the retail trade base and included as a separate item on Table D-1 based on data from other sources as noted.
- d/ Repairs and services rendered by retail establishments have been included in the service category on Table D-3.

TABLE D-3

ESTIMATE OF TAXABLE SERVICES DRAWN FROM 1961 CENSUS
OF MERCHANDISING AND PROJECTED TO 1964 USING RATIOS
OF GROWTH IN PERSONAL EXPENDITURE a/
(millions of dollars)

	<u>Census</u> <u>1961</u>	<u>Proposed</u> <u>Tax Base</u> <u>1961</u>	<u>Proposed</u> <u>Tax Base</u> <u>1964</u>
Service trades			
Barber and beauty shops etc.	143	143	
Dry cleaning	117	117	
Laundry and linen supply	94	94	
Shoe repair	23	23	
Fur and hat cleaning, repair and storage	2	2	
Valet service, pressing and repair	7	7	
Dressmakers	3	3	
Photography and photo processing	47	47	
Hotel, tourist camp and restaurant group- accommodation, liquor, supplies and sundries <u>b/</u>	1,107	1,107	
Repairs and services by retail establishments	709	709	
Meals - retail establishments <u>c/</u>	70	} 312	
- hotels and restaurants <u>c/</u>	<u>553</u>		
Total <u>d/</u>	<u>2,877</u>	<u>2,565</u>	3,080
Telephone and telegraph <u>e/</u>			<u>920</u>
Total			<u>4,000</u>

Notes:

- a/ Census data were obtained from Census of Merchandising, 1961 - Services, Catalogue 97-540, Ottawa: Queen's Printer.
- b/ Sales by the hotel, tavern and restaurant group have been reduced by one third to provide for meals which are shown separately below. The two thirds remaining represent an estimate of liquor, accommodation, other service and sundry sales by establishments in this group.
- c/ An estimated 50 per cent of meals would be exempt if an inexpensive meal exemption was provided.
- d/ The tax base for 1964 for the service category is estimated to be 120 per cent of the 1961 base. This growth factor is based on National Accounts, personal expenditure on services.
- e/ Based on data provided by the Dominion Bureau of Statistics.

TABLE D-4

ESTIMATE OF THE PROPOSED RETAIL SALES TAX BASE FOR 1964 BASED
ON THE REVENUE YIELD FROM THE ONTARIO SALES TAX
(millions of dollars)

Yield of 3 per cent Ontario tax in 1964		196
Add average 2 per cent collection commission		<u>4</u>
Gross yield of the Ontario tax in 1964		<u>200</u>
Ontario yield for each 1 per cent of tax		67
National yield imputed for each 1 per cent of tax (x $\frac{100}{39}$) a/		<u>171.8</u>
National base corresponding to base taxed in Ontario (171.8 x 100)		17,180
Adjustments required to obtain the proposed retail sales tax base		
List of taxable services except local telephone taxed in Ontario in 1964	3,600	
Gasoline and motor fuel b/	1,155	
Municipal and institutional consumption of construction materials and other miscellaneous provincial exemptions c/	<u>525</u> 5,280	
Less: estimate of federal sales and excise taxes included in above base d/	<u>1,400</u>	<u>3,880</u>
Estimate of proposed retail sales tax base		21,060
Discrepancy between the estimate and the direct estimate presented in Table D-1		<u>30</u>
Estimated 1964 retail sales tax base		<u>21,030</u>

Notes:

- a/ Ontario accounts for slightly less than 39 per cent of national retail sales and slightly more than 39 per cent of producer consumption. Since the proposed retail tax would exempt most producer goods, the Ontario share of the national tax base has been assumed as 39 per cent.
- b/ The gasoline and motor fuel base has been estimated on the basis of the yield from Ontario fuel taxes in the amount of \$231 million in 1964-65.
- c/ The purpose of this estimate is to adjust on a national basis for exemptions under the Ontario tax not proposed for a federal tax. The principal components are municipal and institutional purchases of construction materials, children's clothing and other sundry items.
- d/ See note e/ to Table D-1.

APPENDIX E

ESTIMATE OF THE INCIDENCE OF THE PROPOSED SALES TAX AND DIRECT TAXES FOR FAMILY UNITS CLASSIFIED BY INCOME

While it would be possible to do so, we have not attempted to aggregate taxpayers into family units in the calculations underlying our estimates of the effects of our proposals upon the revenue yield and incidence of the tax system. In this appendix we provide some rough estimates of the incidence of the changes in sales tax which would result from our recommendations and also of changes which would occur in direct taxes for families with one income recipient. Our estimates are based on 1961 data.

We have estimated the incidence of the sales tax by distributing total sales tax revenues from both current and proposed taxes over income classes. This distribution is based on the manufacturer's sales tax for the current sales tax and on existing provincial retail sales taxes for the proposed retail sales tax. As is indicated in Appendix D to this Volume, the proposed retail sales tax differs most notably from the existing provincial taxes in its inclusion of services in the sales tax base. Consequently, we have adjusted our estimate of the distribution of the proposed tax to reflect the likelihood that the tax would be nearly proportional for upper income families. The estimates of revenue yield by income class and underlying data are presented in Table E-1; the resultant estimates of average sales tax payments are presented in Table E-2.

For want of data on taxpayers aggregated into family units, we have had to make some arbitrary assumptions in order to obtain estimates of the changes in sales tax and direct taxes combined. We have limited our comparisons to families with one income recipient and have assumed the average taxes paid by all such families in each income class to be the same as the average taxes paid by all taxpayers in that class. This procedure results in some biases. In each income class there are some working spouses and working children who belong to families that would be classified in a higher

income class if all incomes in the family were aggregated. Because deduction and tax credits reflecting family responsibilities would, without aggregation, generally, be claimed by the income recipient with the largest income in the family, our procedure results in some overstatement of direct taxes for the lower income classes. For higher income classes, the failure to aggregate family income results in some understatement of direct taxes.

Estimates of changes in direct taxes and sales tax combined are presented in Table E-3 for family units in each income class.

TABLE E-1

DISTRIBUTION OF 1961 SALES TAX REVENUES
OVER BROAD INCOME CLASSES UNDER THE
CURRENT AND PROPOSED TAX SYSTEMS

<u>Income</u>	<u>Percentages of Totals Allocable to each Income Class in 1961</u>			<u>Estimate of Total Revenue from Sales Tax in 1961</u>	
	<u>Manufacturer's Sales Tax</u>	<u>Retail Sales Tax</u>	<u>Retail Sales Tax Adjusted for Inclusion of Services</u>	<u>Current</u>	<u>Proposed</u>
	(percentage of totals)			(millions of dollars)	
Less than \$2,000	6.5	7.3	6.9	91	89
\$ 2,000 - 2,999	6.5	6.7	6.4	91	83
3,000 - 3,999	10.5	10.5	10.0	148	130
4,000 - 4,999	13.8	13.7	13.0	194	168
5,000 - 6,999	27.6	27.5	26.1	388	338
7,000 - 9,999	21.6	21.2	20.2	303	262
10,000 and over	<u>13.5</u>	<u>13.1</u>	<u>17.4</u>	<u>190</u>	<u>225</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>1,405</u>	<u>1,295</u>

Note: The first two distributive series (that is, percentages of totals) are from Table A-2 of W.I. Gillespie, The Incidence of Taxes and Public Expenditures in the Canadian Economy, a study published by the Commission. The third distributive series is obtained from the second, given an assumption that a retail sales tax base including services is almost proportional to disposable income for families with incomes in excess of \$7,000. The distribution of disposable income is obtained from Table A-1 of W.I. Gillespie, op. cit.

Total revenues from the current sales tax in 1961 were estimated by adding to the actual revenues for that year 11 per cent of an estimate of what the building materials base would have been in 1961; total proposed revenues were estimated as 0.922 of current revenues.

TABLE E-2

AVERAGE CHANGE IN SALES TAX FOR
UNATTACHED INDIVIDUALS AND FAMILIES
IN DIFFERENT INCOME CLASSES

<u>Income</u>	Number of Unattached Individuals and Families in Income Class <u>(thousands)</u>	<u>Average Sales Tax Paid</u>		<u>Average Change in Sales Tax</u>
		<u>Current</u>	<u>Proposed</u>	
Less than \$2,000	1,134	\$ 80	\$ 78	\$ -2
\$ 2,000 - 2,999	633	144	131	-13
3,000 - 3,999	697	212	187	-25
4,000 - 4,999	771	252	218	-34
5,000 - 6,999	1,117	347	303	-44
7,000 - 9,999	602	503	435	-68
10,000 and over	263	722	856	134
All Classes	5,217	269	248	-21

Source: Table E-1. Numbers of unattached individuals and families are from W.I. Gillespie, op. cit., Table A-4.

TABLE E-3

ESTIMATED CHANGE IN AVERAGE SALES TAX AND DIRECT
TAXES COMBINED FOR FAMILIES IN EACH INCOME CLASS
(dollars)

<u>Income</u>	<u>Average Change in Taxes</u>		
	<u>Direct Taxes</u>	<u>Sales Tax</u>	<u>Total</u>
Less than \$ 2,000	-13	-2	-15
\$ 2,000 - 2,999	-17	-13	-30
3,000 - 3,999	-24	-25	-49
4,000 - 4,999	-27	-34	-61
5,000 - 5,999	-24	-44	-69
6,000 - 6,999	-26		
7,000 - 7,999		-13	-68
8,000 - 9,999	-7		
10,000 - 14,999	+71	+134	+807
15,000 - 24,999	+142		
25,000 - 49,999	+584		
50,000 and over	+8,472		
All Classes	+14	-21	-7

Note: Average direct taxes of families in each income class have been assumed to be the same as the average taxes attributable to all taxpayers in the income class. Direct taxes of taxpayers with incomes between \$6,000 and \$7,999 have been allocated on the assumption that 45 per cent of these taxpayers have incomes between \$7,000 and \$7,999.

Sources: Tables 36-4 and E-2.

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